



McGraw-Hill Construction Dodge

Construction Outlook: 2003

Presented to: US Army Corp of Engineers

By:

McGraw-Hill Construction/Dodge

Date: June 3, 2003

Agenda

- US Construction Market and Indicators
- US Macroeconomic Picture
- Total Construction Value for 2003
- Single Family Housing
- Income Properties
- Manufacturing
- Institutional Buildings
- Public Works



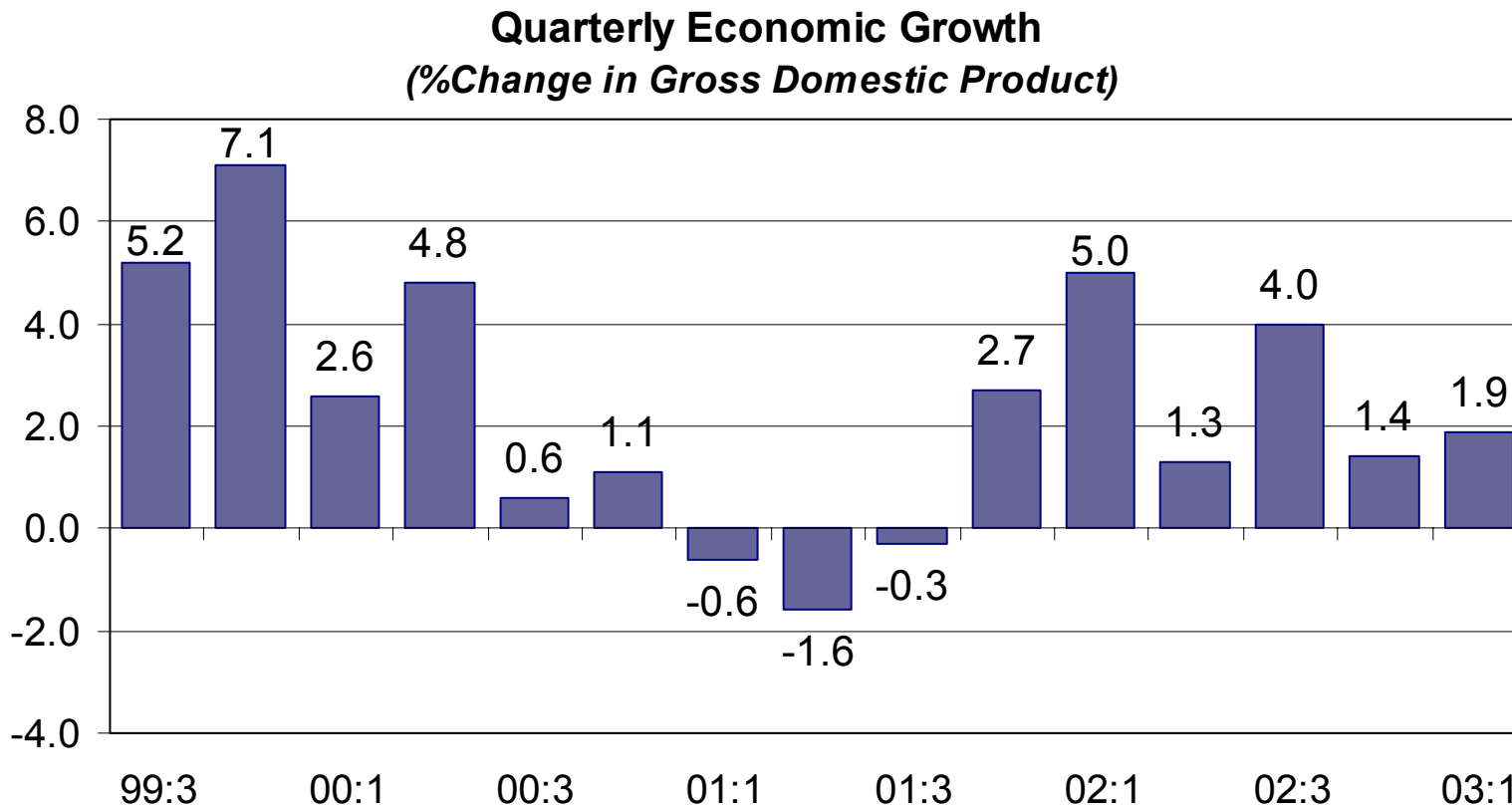
McGraw-Hill Construction/Dodge: What we're all about...

- Dodge is the premier source of information on individual construction projects in planning
- Project details are collected by hundreds of Dodge field representatives (Reporters)
- *Dodge Analytics* aggregates the information to conduct research, provide analysis, and forecast by structure type and geography

The Economic Outlook



The Recession Began in 2001





Unfortunately, the Recovery Has Been Muted

SHORT-TERM OUTLOOK IS DISAPPOINTING:

- Iraq war resolved but no big bounce back.
- Continuing layoffs plague labor market-over 300,000 jobs lost in first fourth months of 2003.
- Excess capacity keeps investment low.
- Smaller gains in consumer spending.
- Corporate investment sees only slight rebound.



A (SMALL) BOOST IS COMING

The good news is:

- Mild rebuilding of business inventories.
- Federal government spending on war effort.
- Lower interest rates and tax rates.
- Drop in oil prices after end of Iraq war.
- Drop in the dollar may boost economy

Pattern of Economic Expansion:

Annual GDP:	1999	2000	2001	2002	2003
	+4.1%	+3.8%	+0.3%	+2.4%	+2.5%

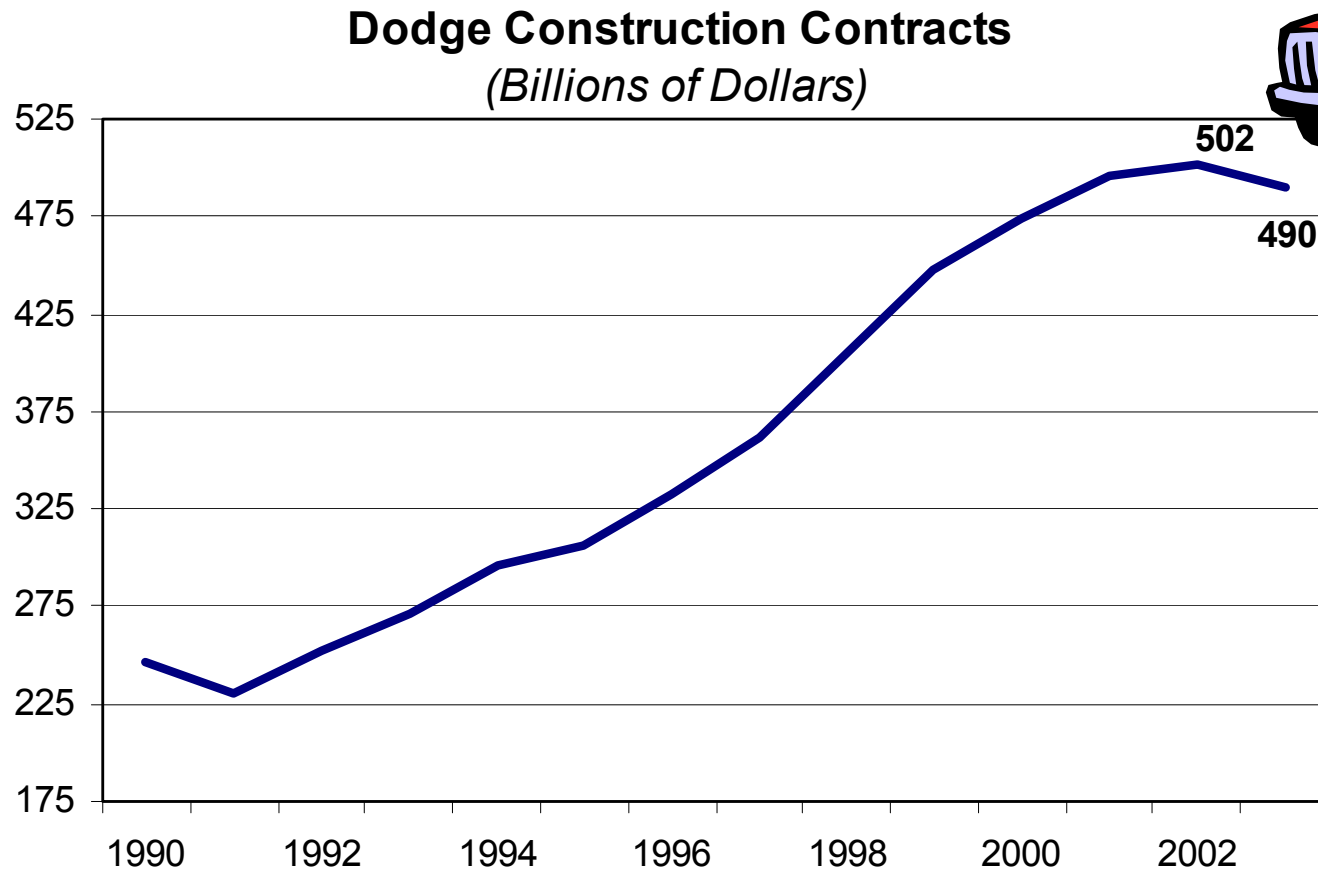
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CONSTRUCTION

The Construction Outlook



U.S. Construction Down 2% in 2003



The Sequence of U.S. Expansion

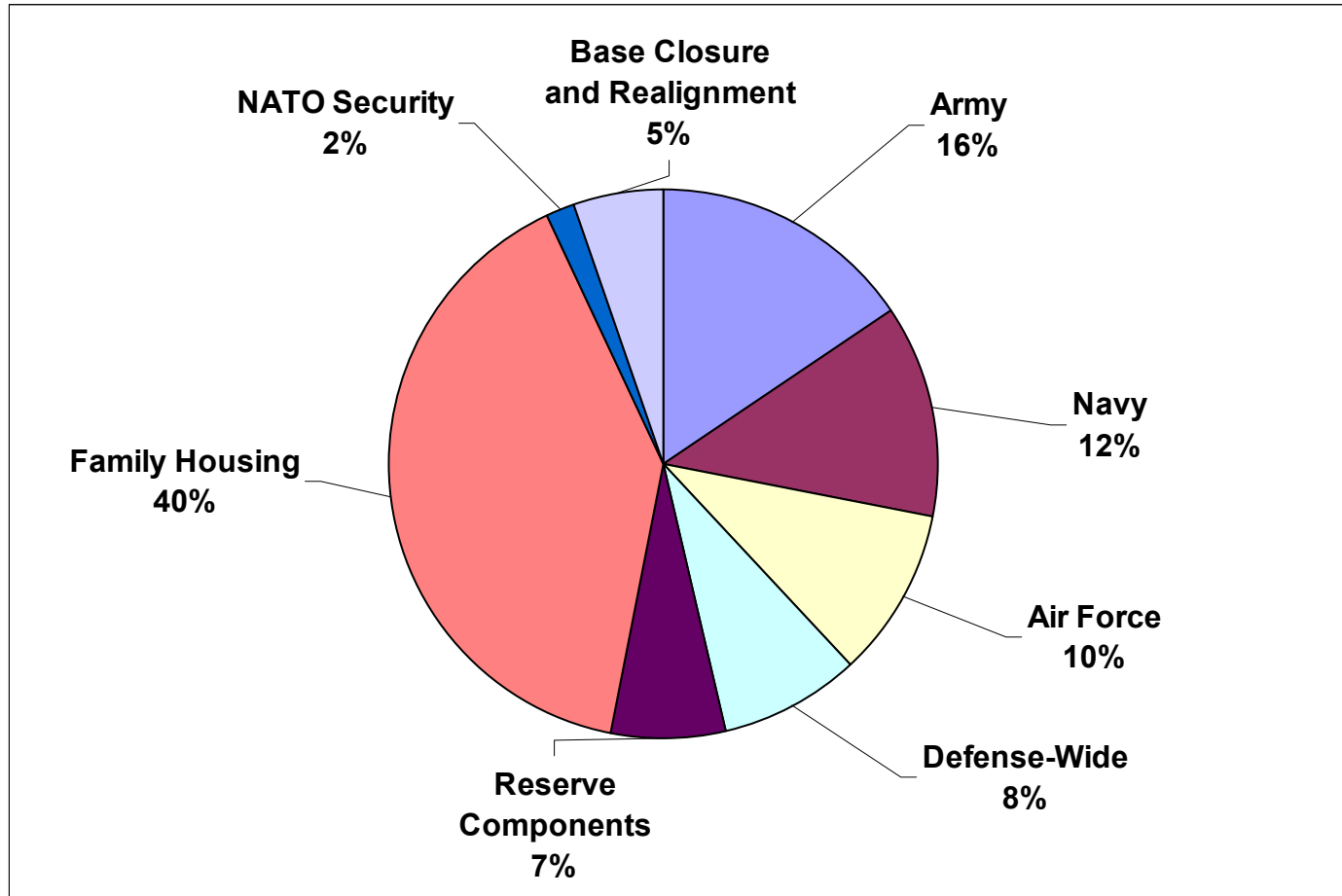
Dodge Construction Contracts

Billions of Dollars

	1999	2000	2001	2002	Forecast 2003
Total Construction	447.2 10%	473.4 6%	495.8 5%	502.0 1%	490.3 -2%
Single Family	164.3 8%	177.0 7%	186.9 5%	214.2 13%	211.2 -1%
Income Properties	107.9 3%	112.4 4%	102.9 -8%	92.4 -10%	91.5 -1%
Manufacturing	11.3 -6%	8.9 -22%	8.1 -8%	5.2 -35%	5.2 -1%
Institutional	80.1 17%	83.6 4%	90.7 8%	89.9 -1%	89.0 -1%
Public Works	74.1 9%	77.9 5%	83.5 7%	87.7 5%	84.7 -3%

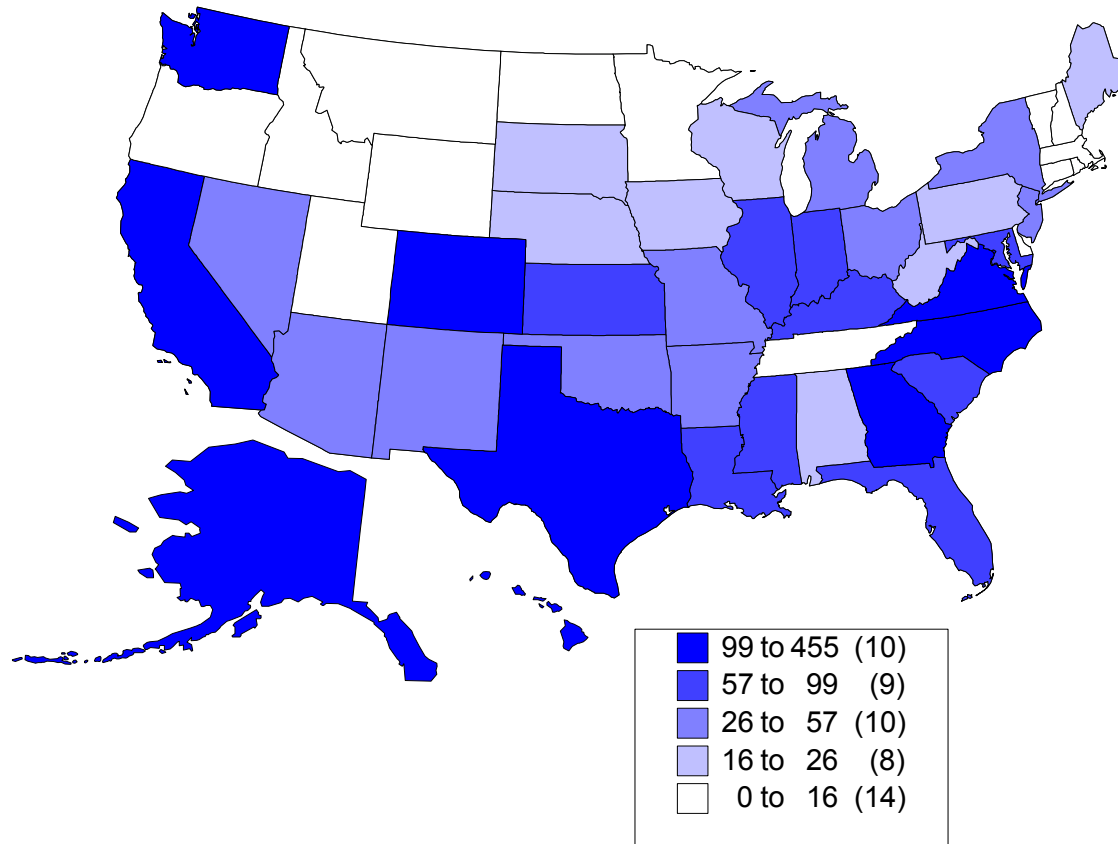
Military Is a Small Piece of Total

Military & USACE Appropriations for 2003 are less than 3% of the \$490 billion estimated for total US



Military Appropriations by State

FY2003 Military Construction Total Obligational Authority-Excludes Military Housing



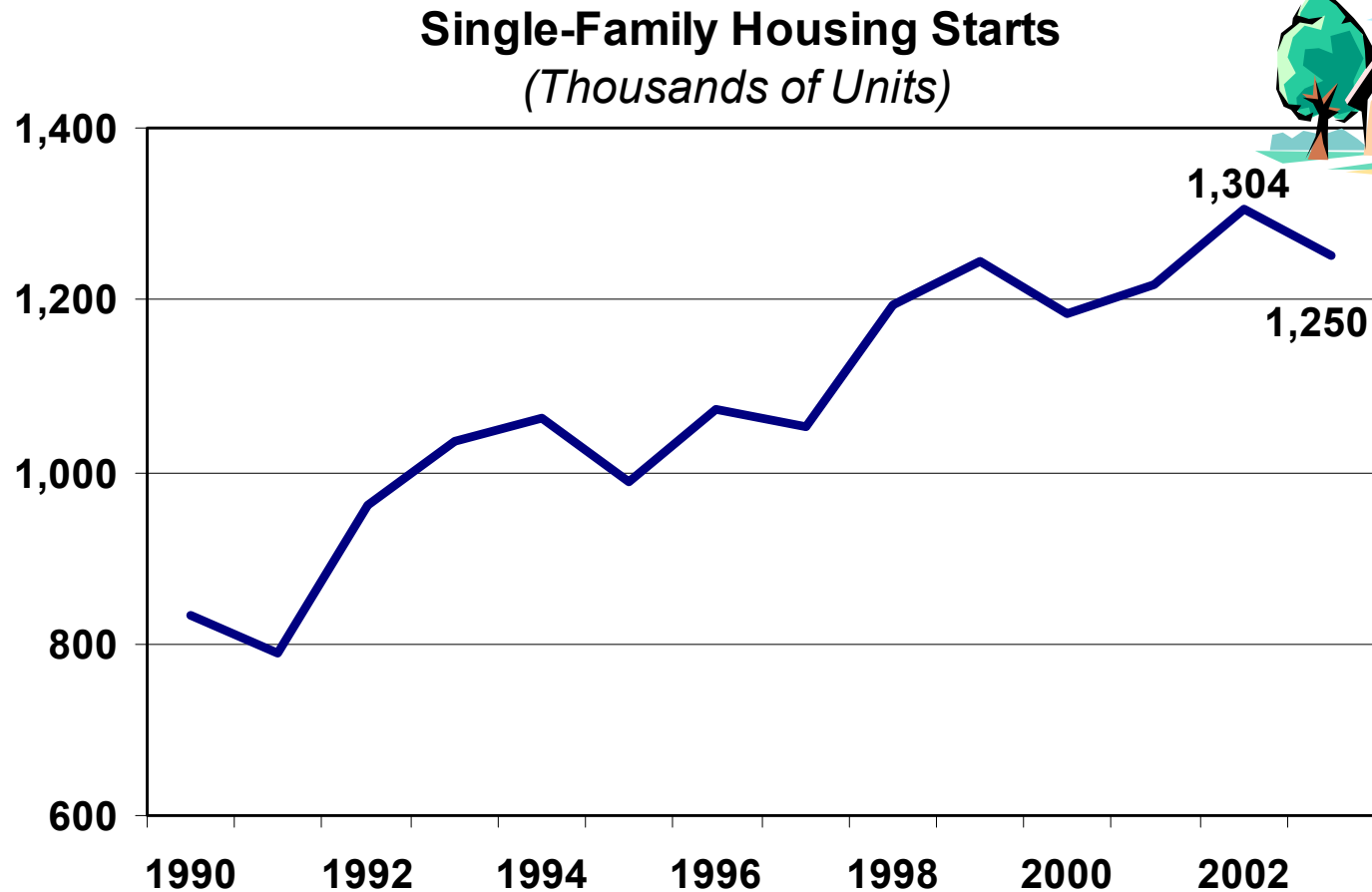
Top States:

Virginia
California
Alaska
Washington
North Carolina
Texas
Hawaii
Colorado
Georgia
District of Columbia

Single Family Construction Still Making Headlines

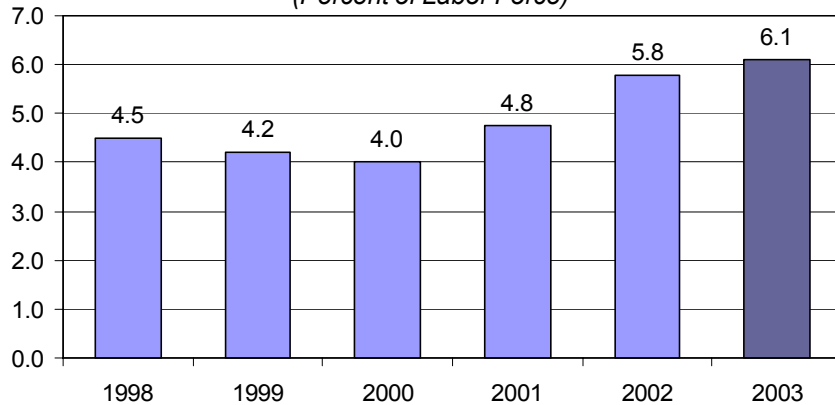


Single Family Resilience is Waning

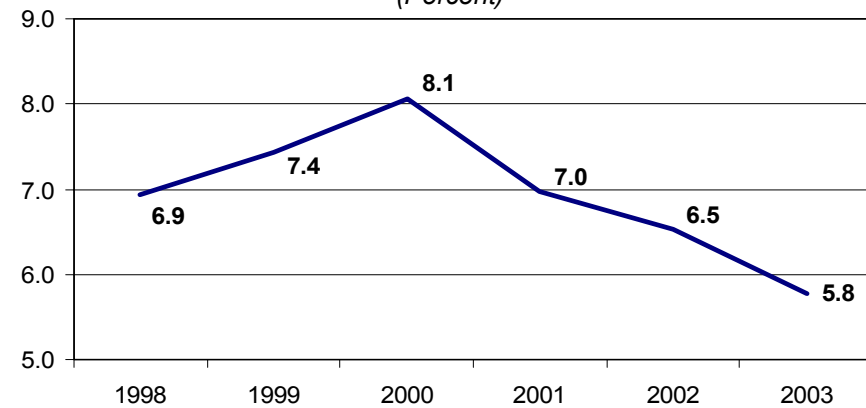


And Most Drivers Provide Less Help

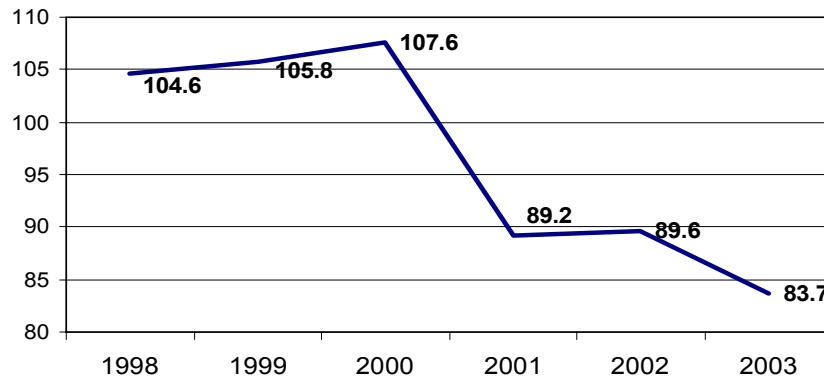
Civilian Unemployment Rate
(Percent of Labor Force)



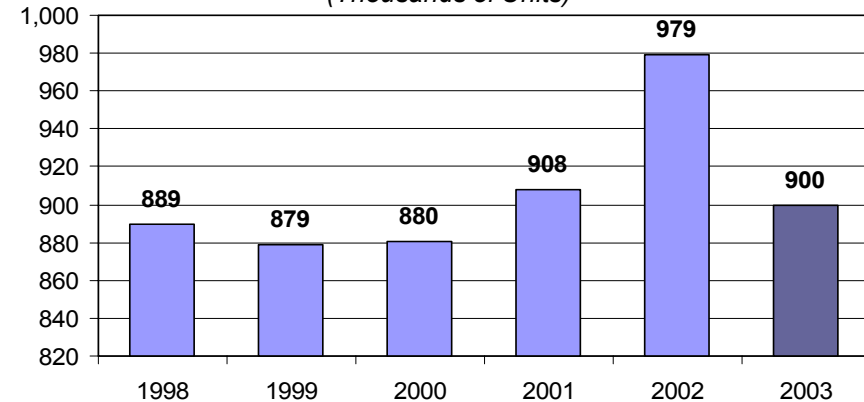
30-Year Fixed Mortgage Rate
(Percent)



Consumer Sentiment-Univ. of Michigan
(1966=100)

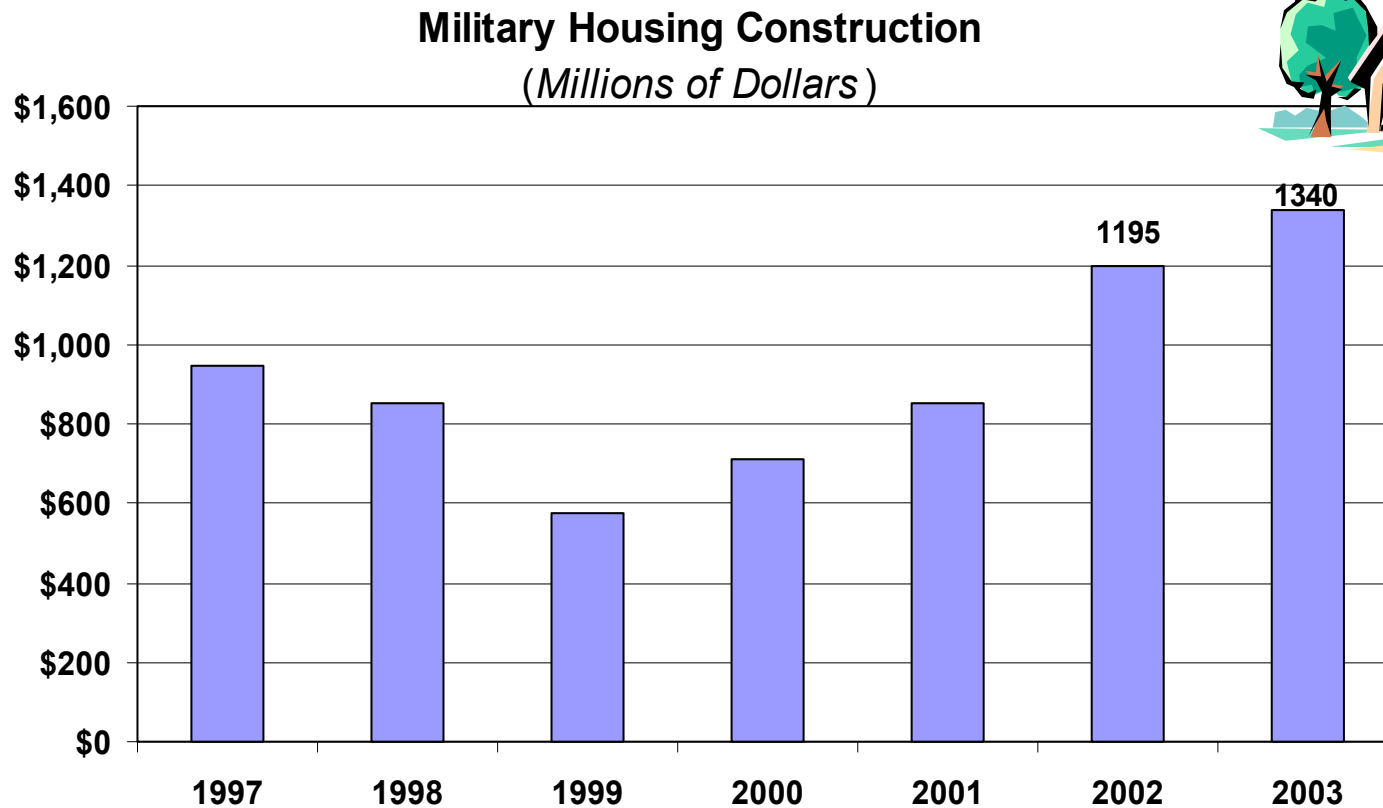


New Home Sales
(Thousands of Units)



Source: Global Insights

Military Housing Keeps Rising

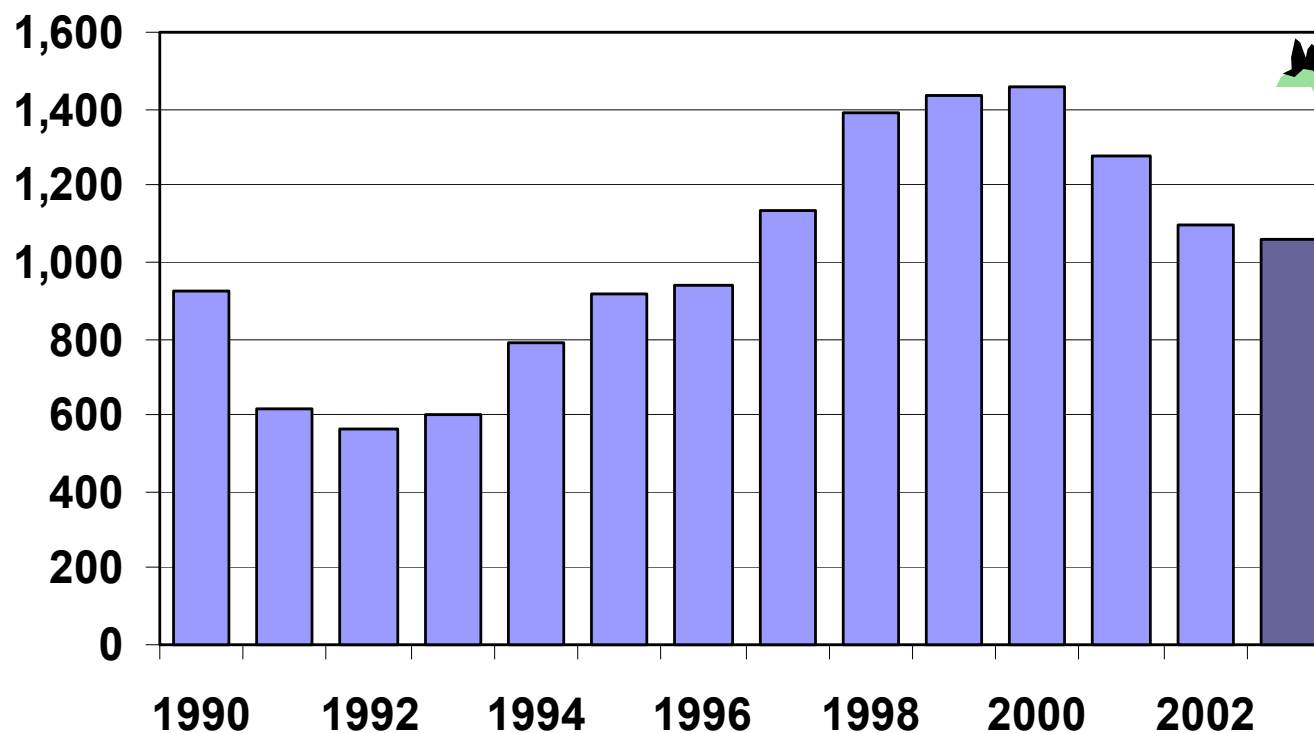


Income Properties Still Hurting



Income Properties Continue to Slide

Income Property Construction
(Millions of Square Feet)



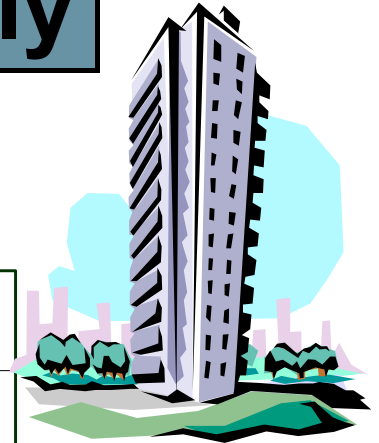
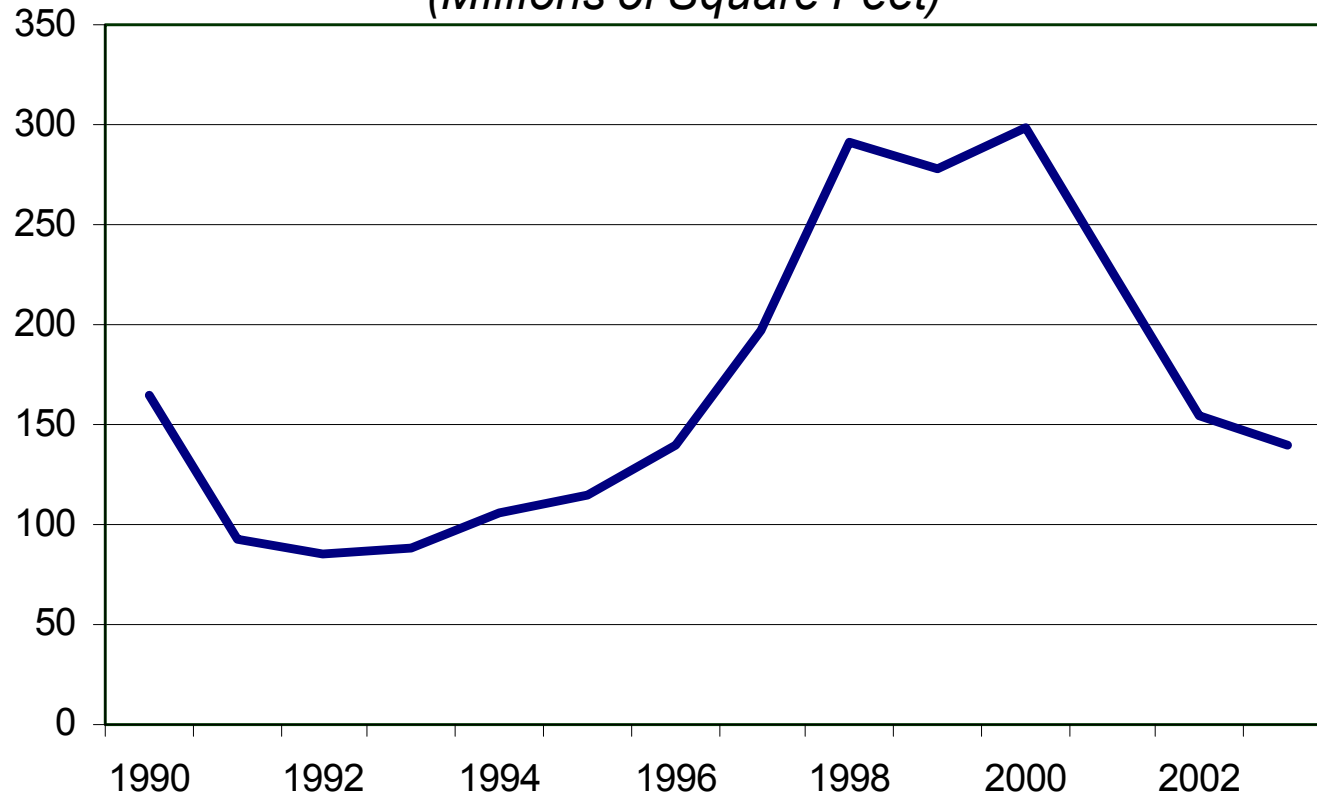
Income Properties

2002: -14%

2003: -3%

Office Starts Pull Back Sharply

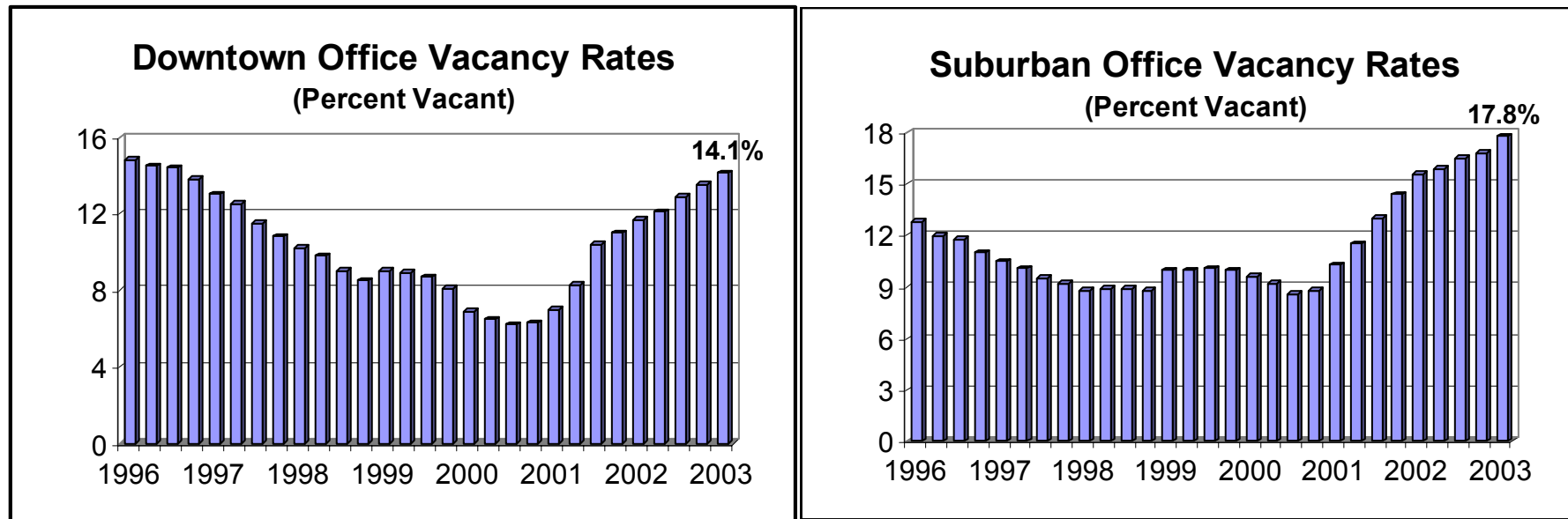
Office and Bank Construction
(Millions of Square Feet)



Office Construction
2002: -31%
2003: -9%

Vacancy Rates Jump in 2001-02

Data Through First Quarter 2003



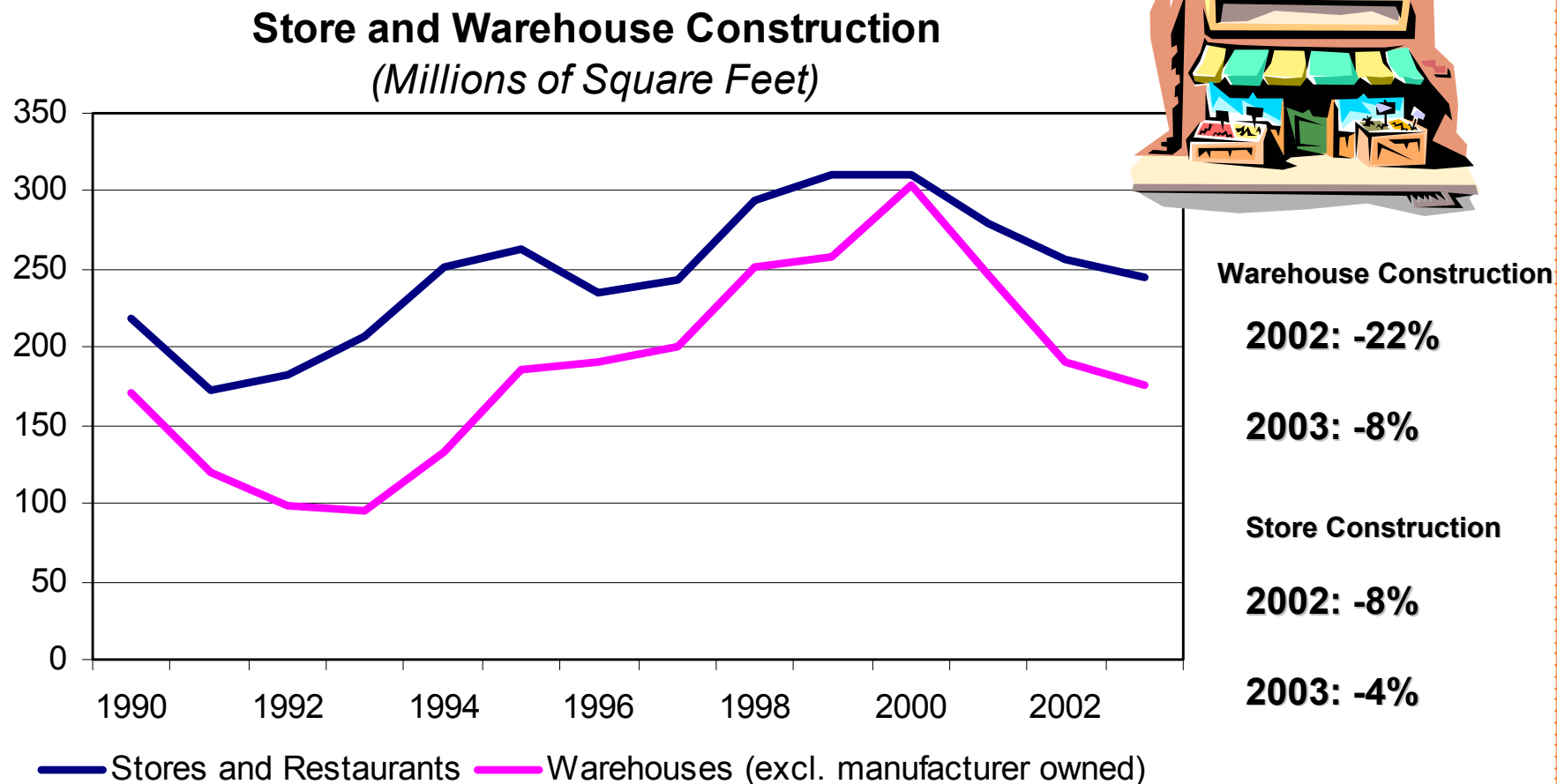
Source: CB Richard Ellis

Top Office Construction Markets

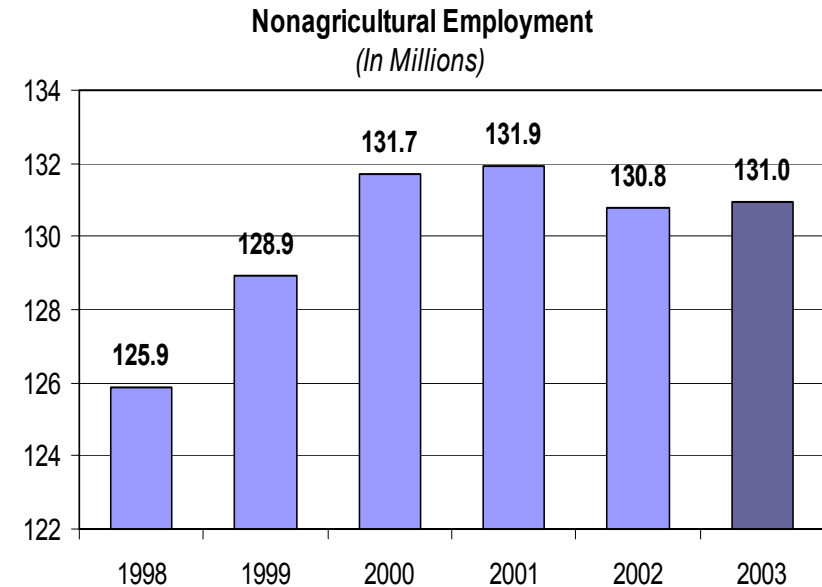
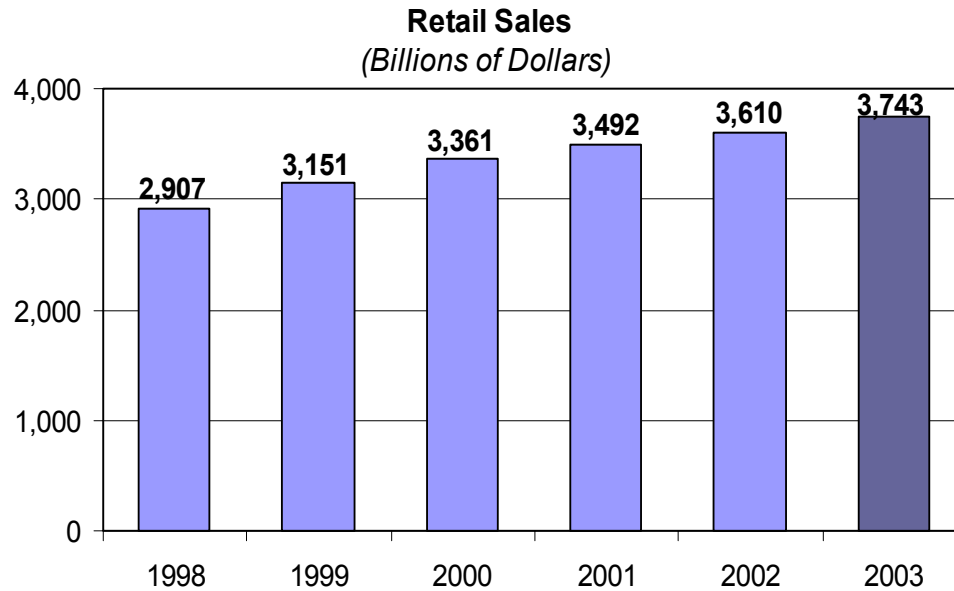
2002 Annual Total

Rank	Metro	Mil \$ 2002	01-02 % Chg
1	Washington, DC	1,588	-10%
2	New York, NY	1,332	5%
3	Chicago, IL	644	1%
4	Houston, TX	544	-11%
5	Los Angeles-Long Beach, CA	510	-28%
6	Dallas, TX	504	-32%
7	Atlanta, GA	490	-31%
8	Boston-Brockton-Nashua, MA-NH	424	-60%
9	Philadelphia, PA-NJ	363	-17%
10	Phoenix-Mesa, AZ	330	-41%

Stores Register More Modest Declines

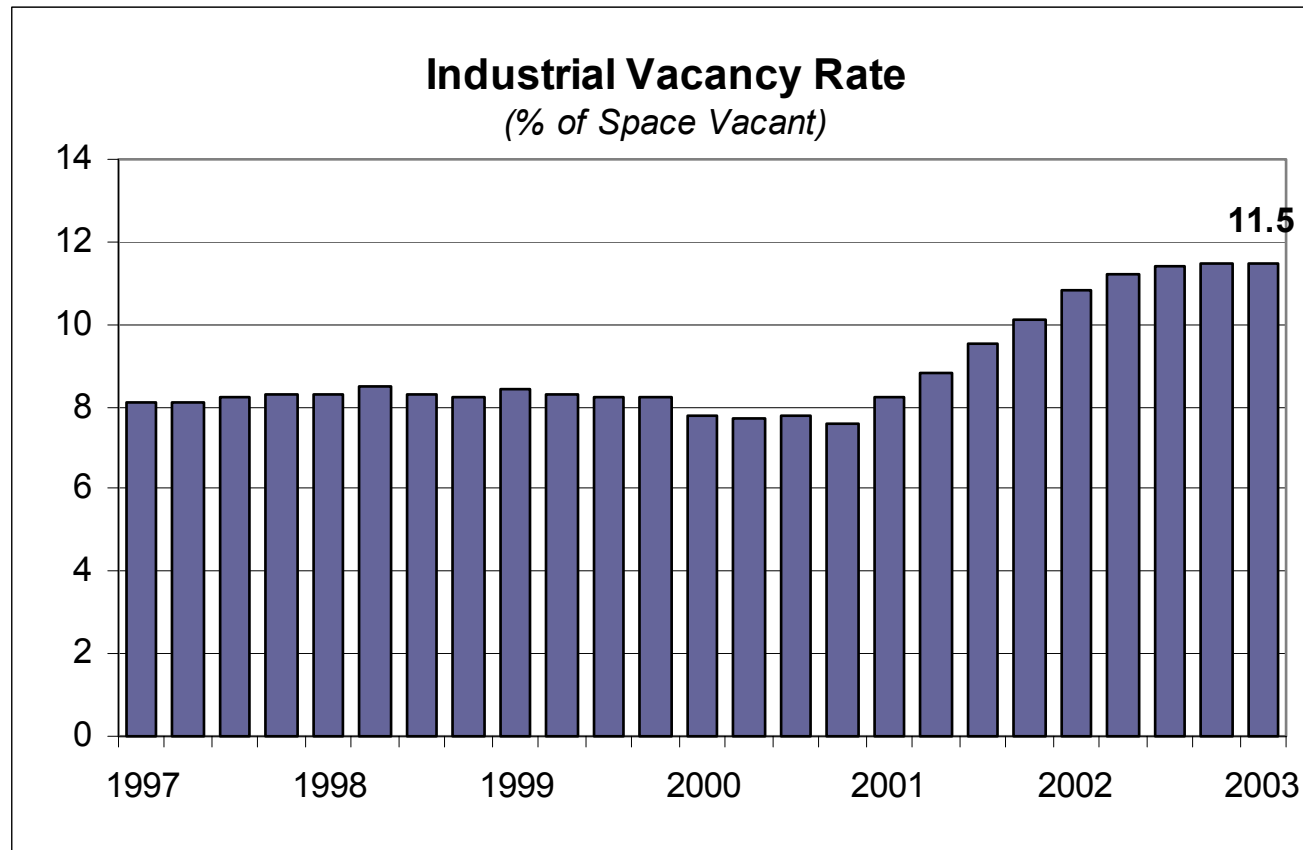


Small Revival of Retail Drivers in 2003



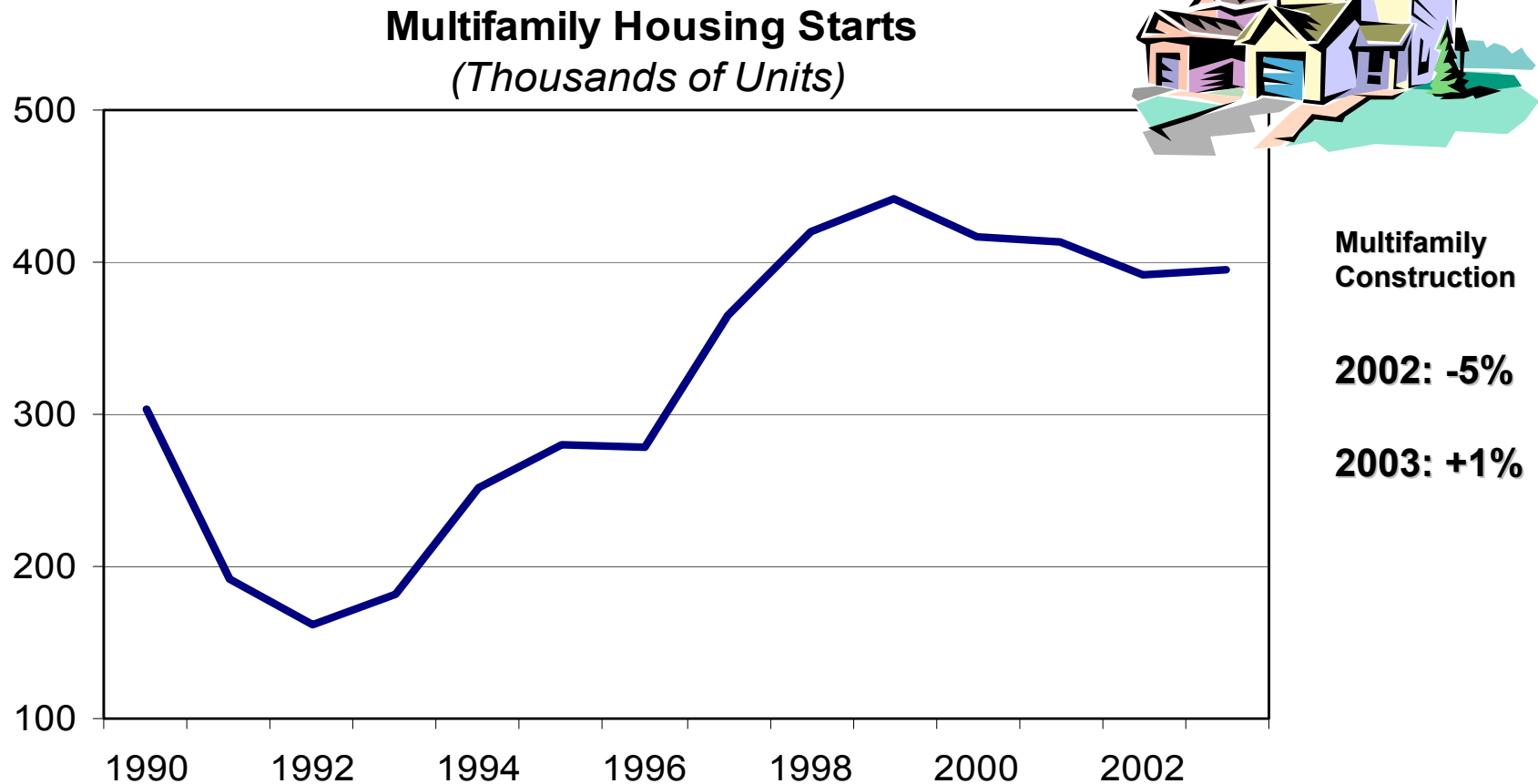
Warehouse Vacancy Rates Level Off?

Data Through First Quarter 2003



Source: CB Richard Ellis

Multifamily: Modest Level, Modest Gain



But Demographics to Improve Outlook

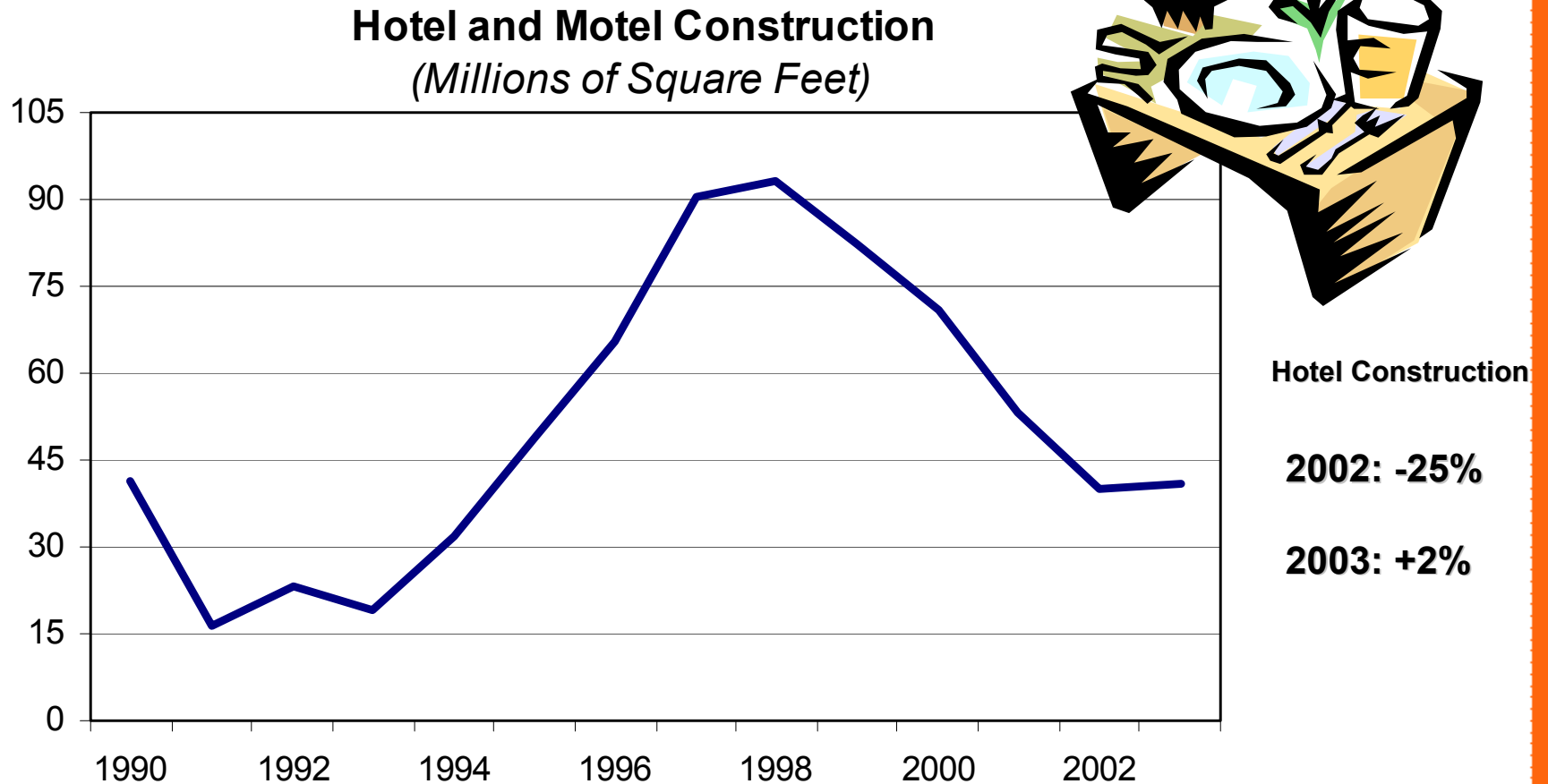
U.S. Resident Population

In Thousands

	1990	1995	2000	2005	2010
18-24 yrs.	26,961	25,112	26,596	28,498	30,163
<i>% Chg</i>		-6.9	5.9	7.2	5.8
Difference		-1,849	1,484	1,902	1,665
55-64 yrs.	21,116	21,132	24,001	29,690	35,429
<i>% Chg</i>		0.1	13.6	23.7	19.3
Difference		16	2,869	5,689	5,739

Source: U.S. Census Bureau

Hotel Construction Bottoms Out



Hotel Industry Performance Falls Short

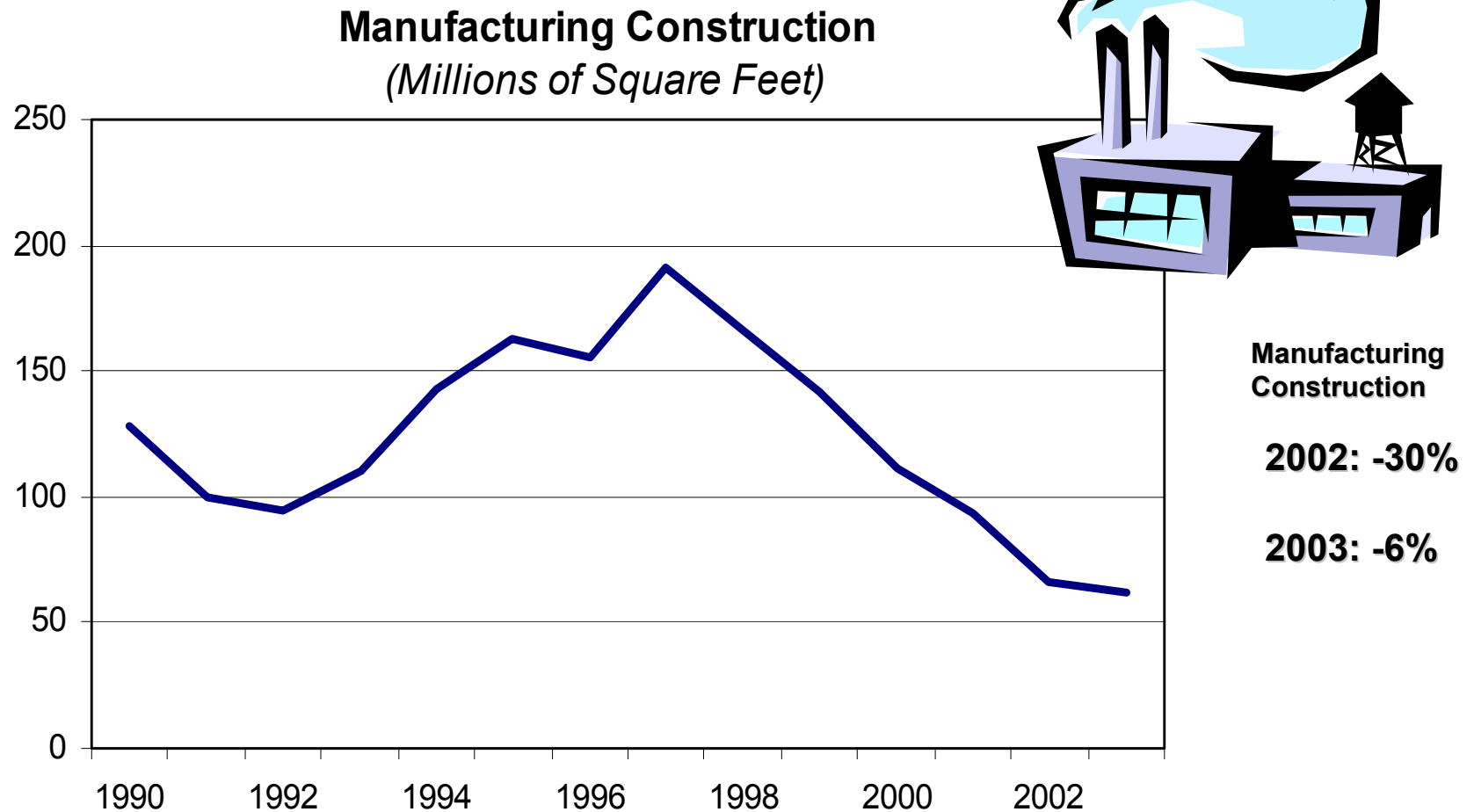
	(Peak) 2000	2002	Forecast 2003
Occupancy Rate	68.7%	61.5%	63.6%
-- Full Service	70.5%	63.2%	66.2%
-- Limited Service	65.2%	58.4%	58.5%
Avg Daily Revenue	\$101.39	\$95.20	\$96.50
-- Full Service	\$121.56	\$113.90	\$114.95
-- Limited Service	\$57.33	\$57.27	\$57.03

Source: PKF Consulting, 3/03

Manufacturing Slack, Will It Come Back?

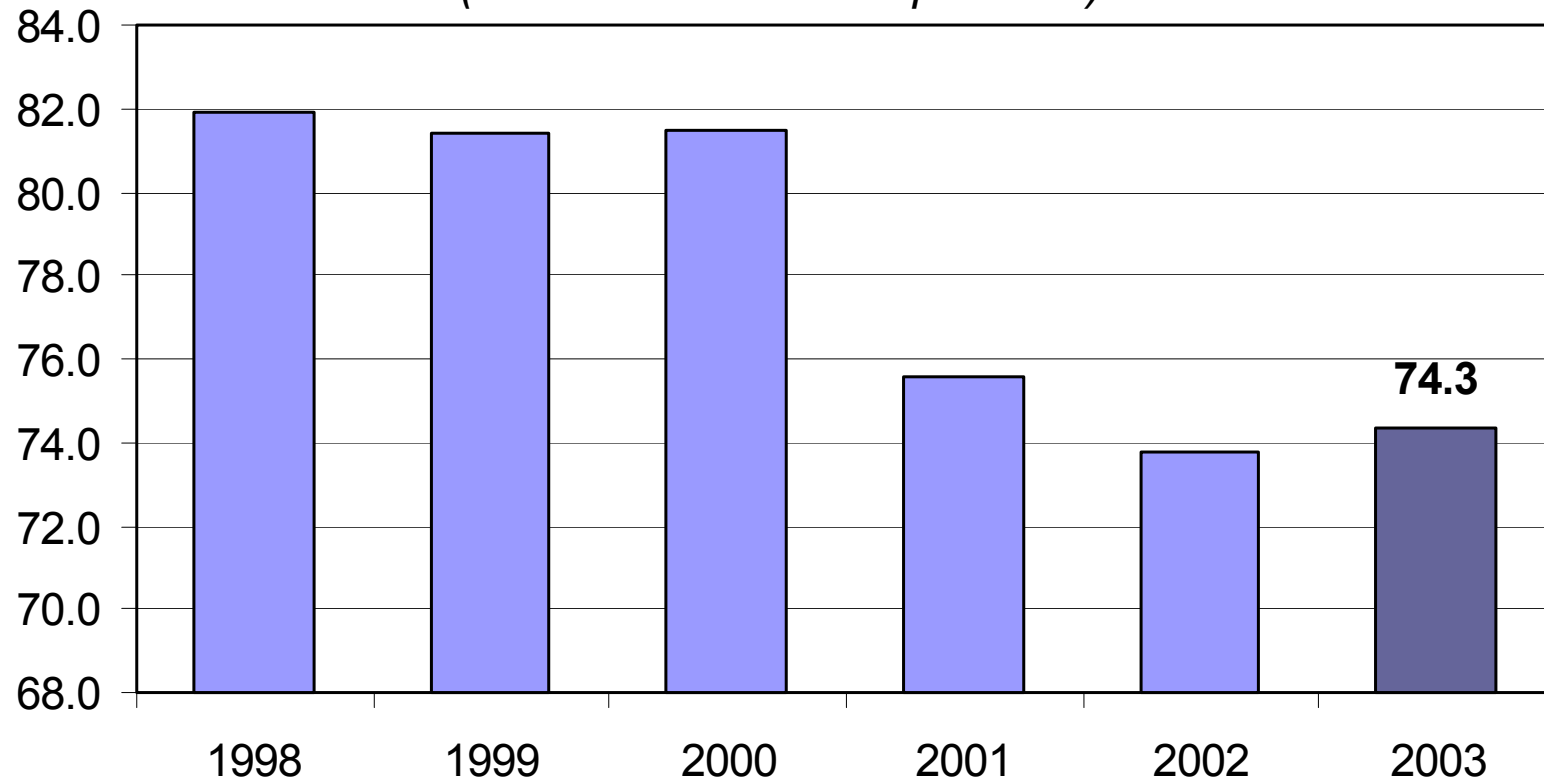


Manufacturing Building Remains Sickly



Plant Utilization Still Idle

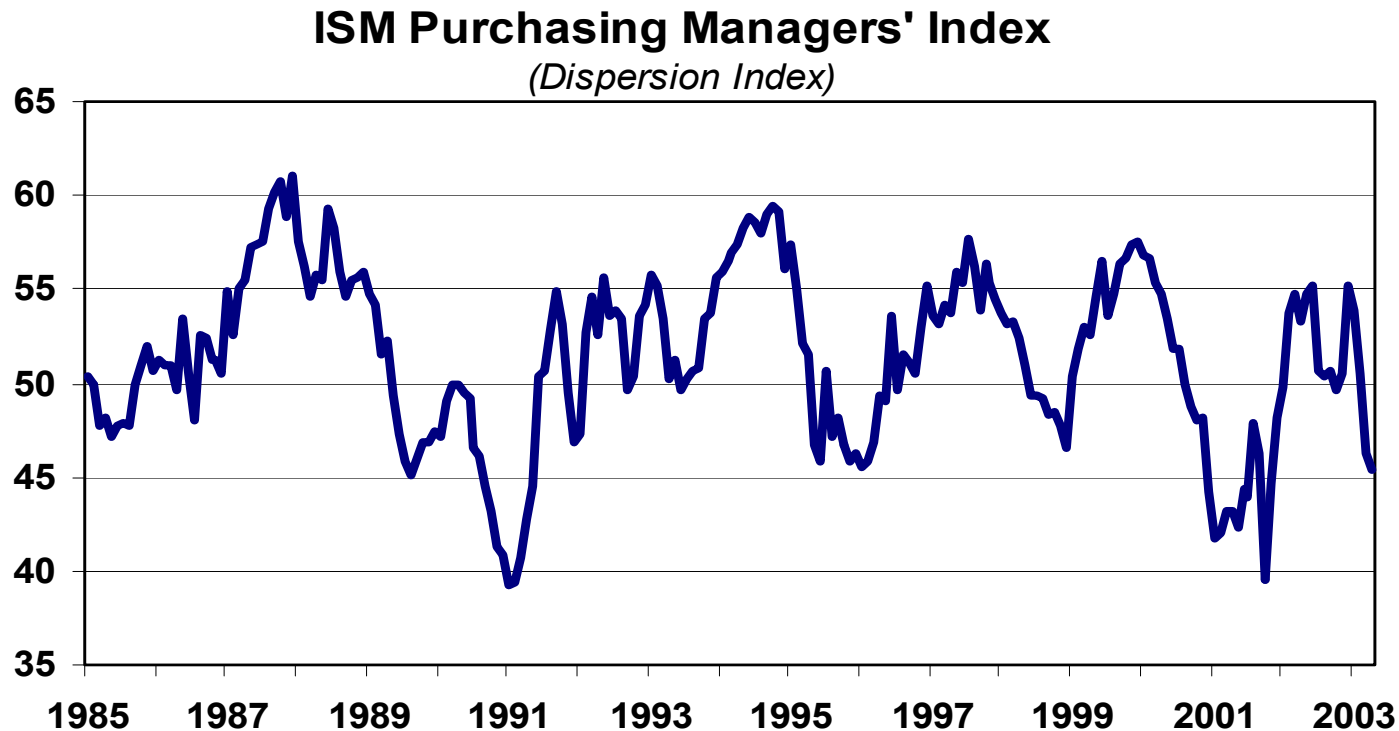
Capacity Utilization in Manufacturing
(Percent of Plant in Operation)



Source: Global Insights

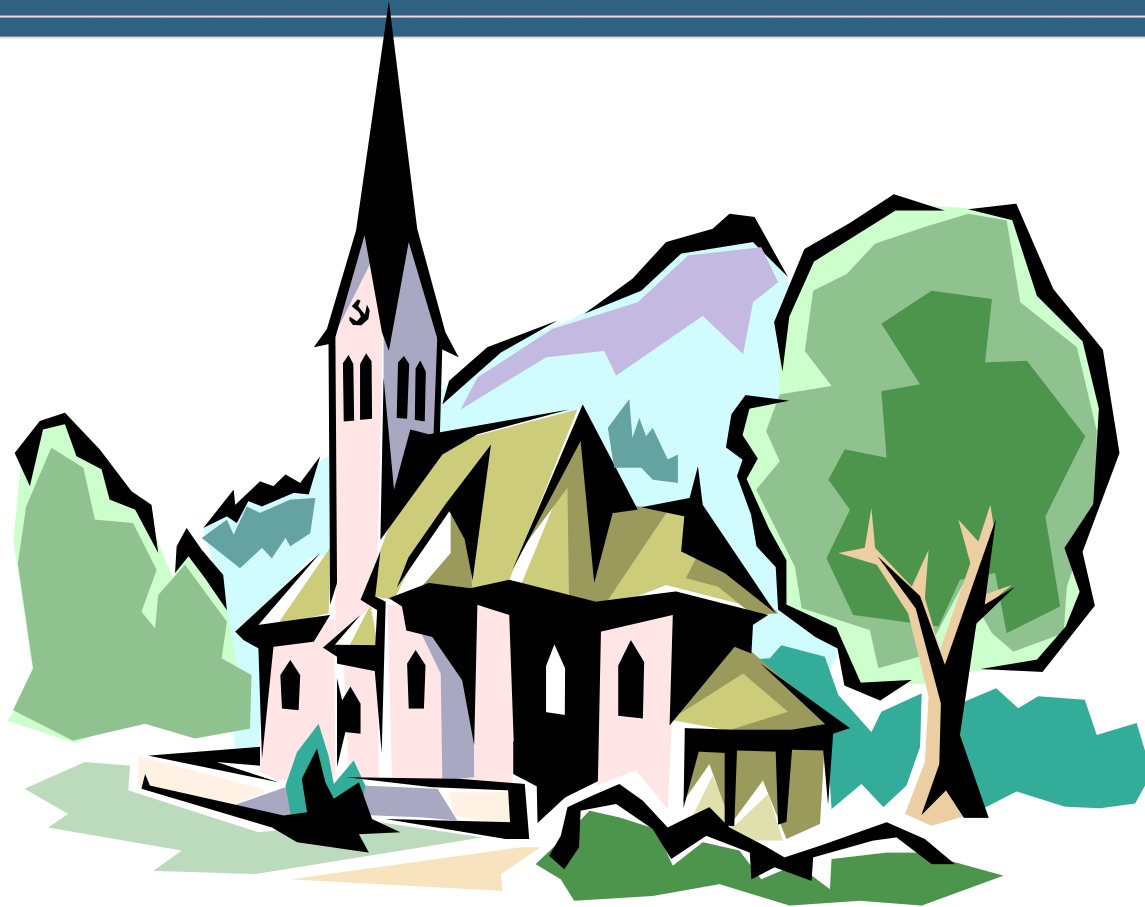
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Manufacturers' Index Heads Back Towards **RED**

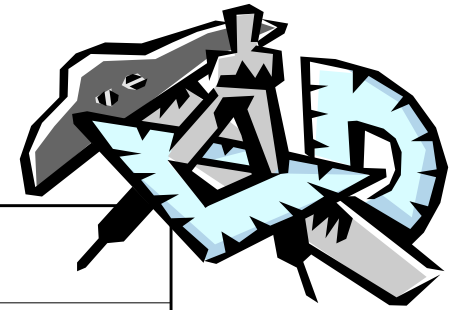
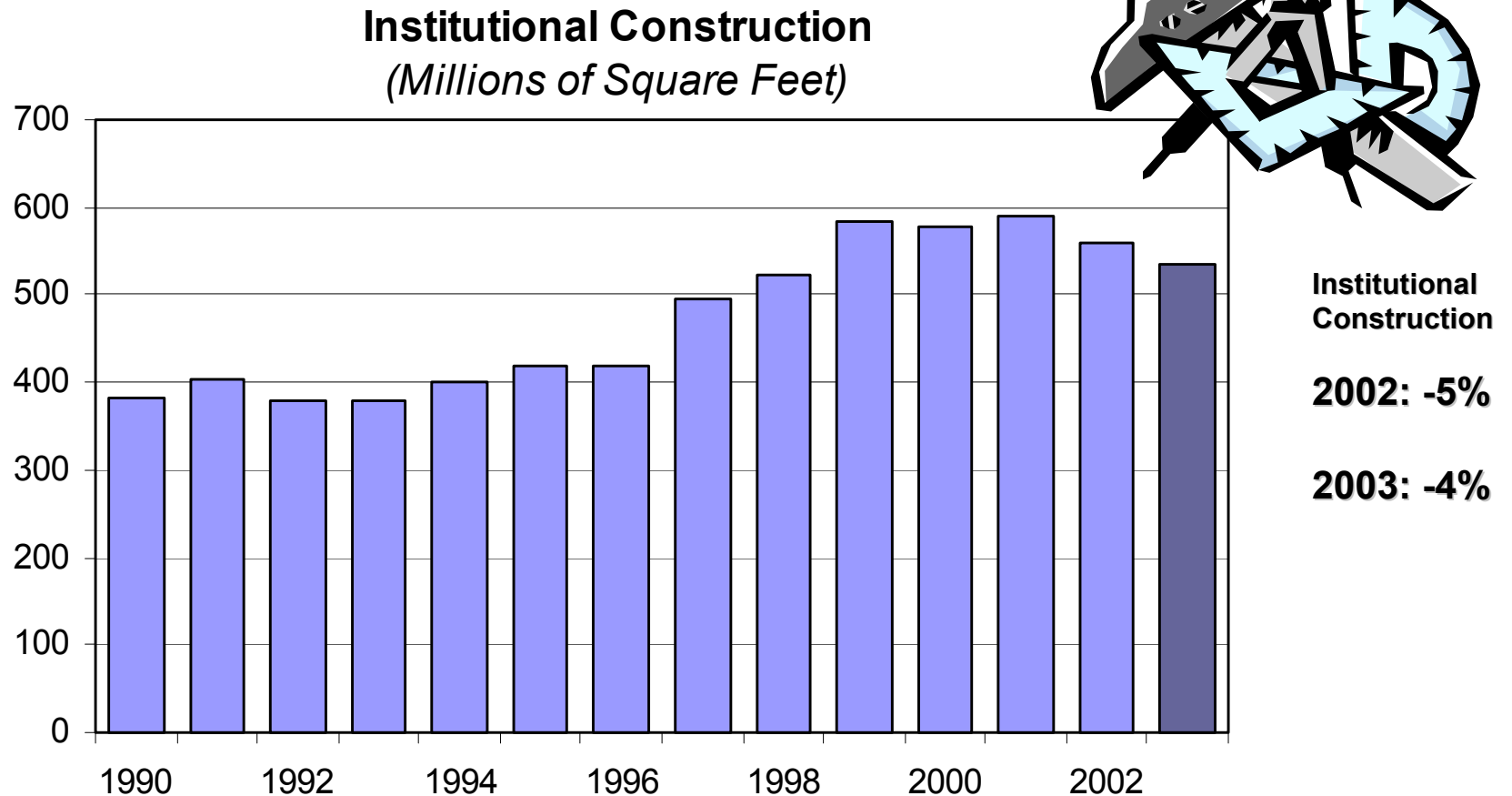


Source: Institute of Supply Management

Institutional Building Remains Solid

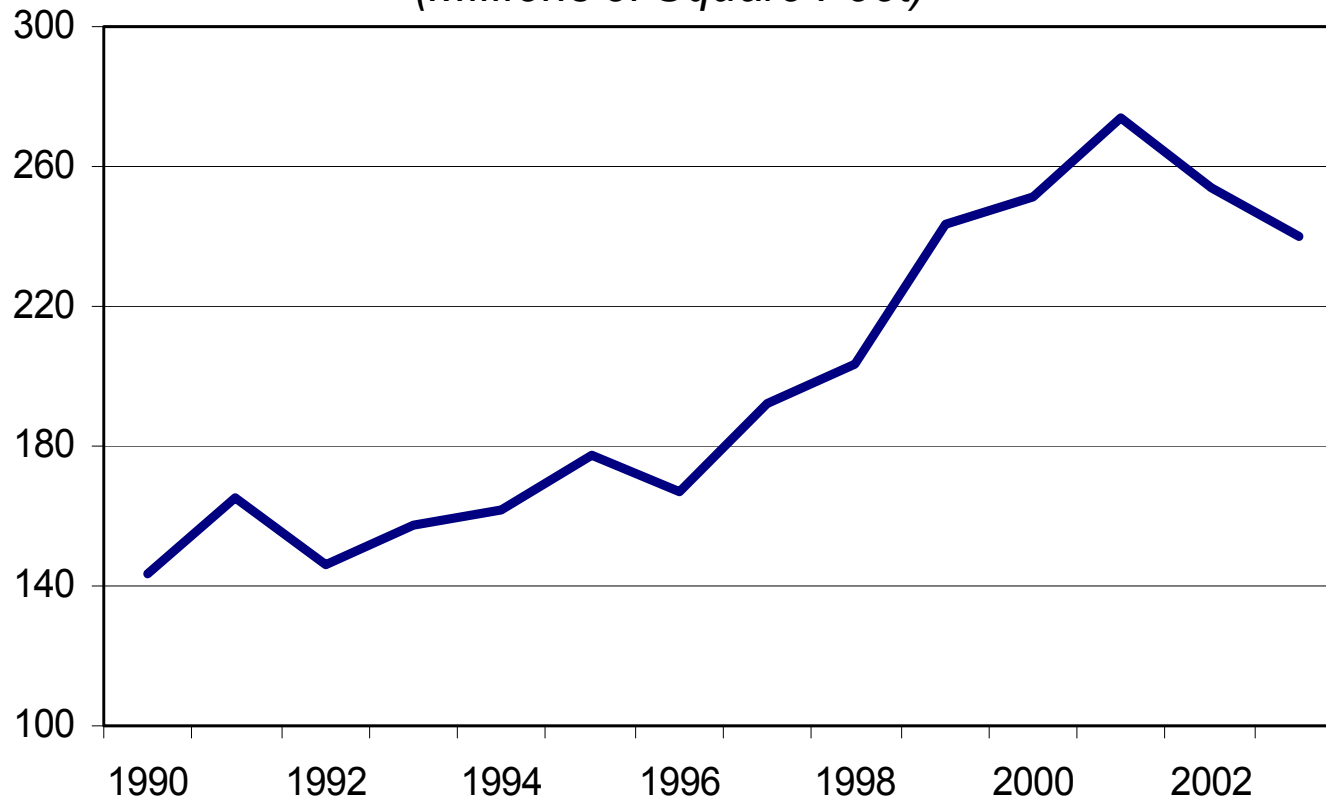


Institutional Market on an Even Keel



Demographics Boost, Budgets Bust

Education Construction
(Millions of Square Feet)



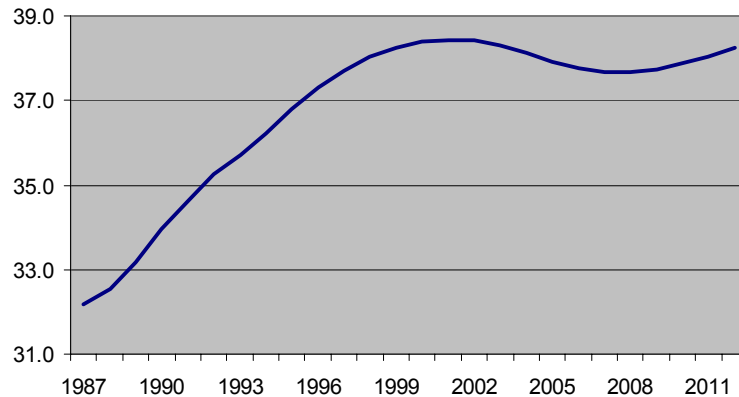
School Construction

2002: -7%

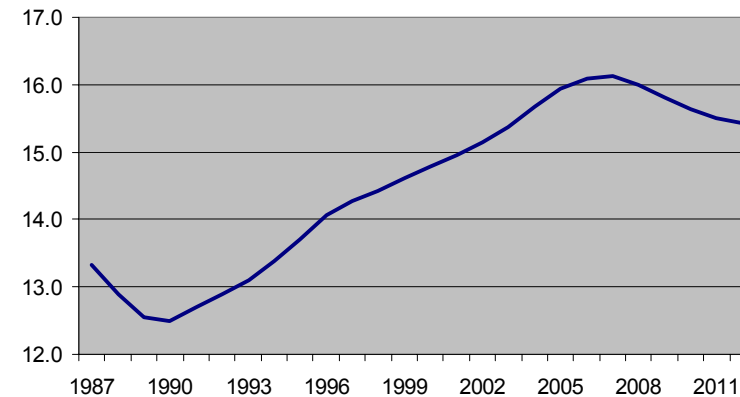
2003: -6%

Enrollments Continue to Drive Bldg

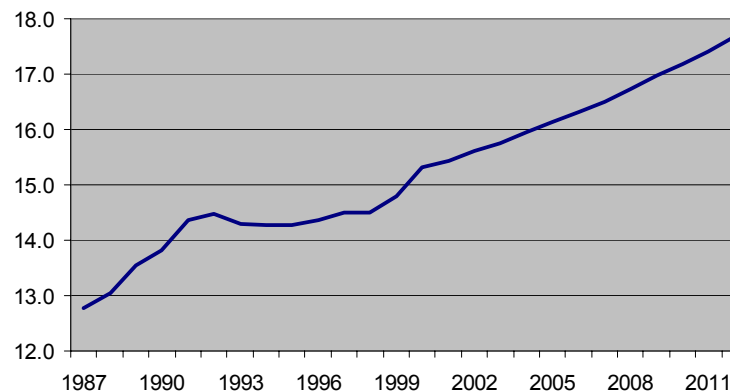
School Enrollment, Grades K-8
(Millions)



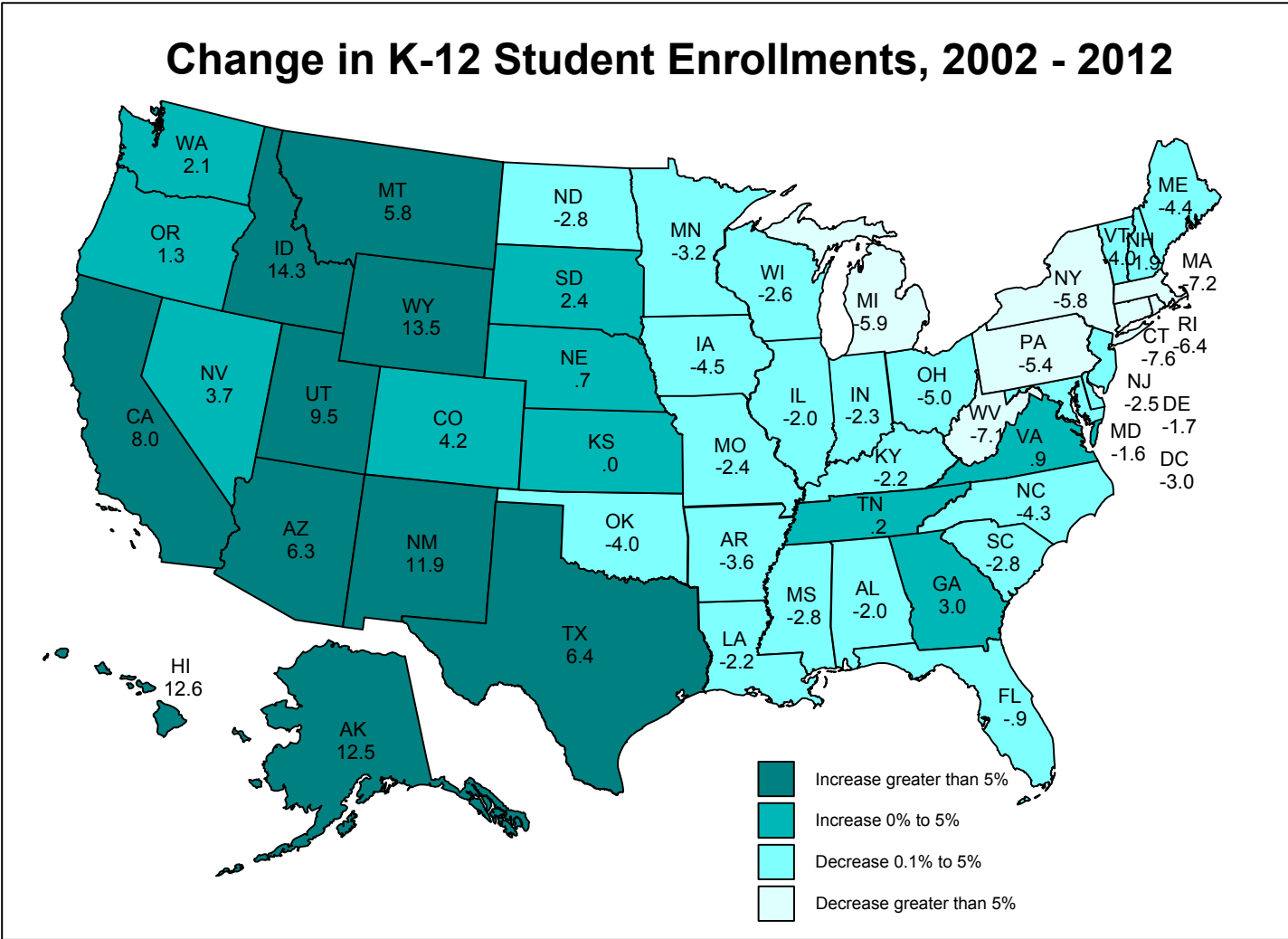
School Enrollment, Grades 9-12
(Millions)



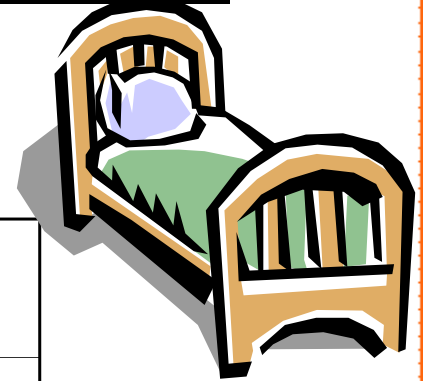
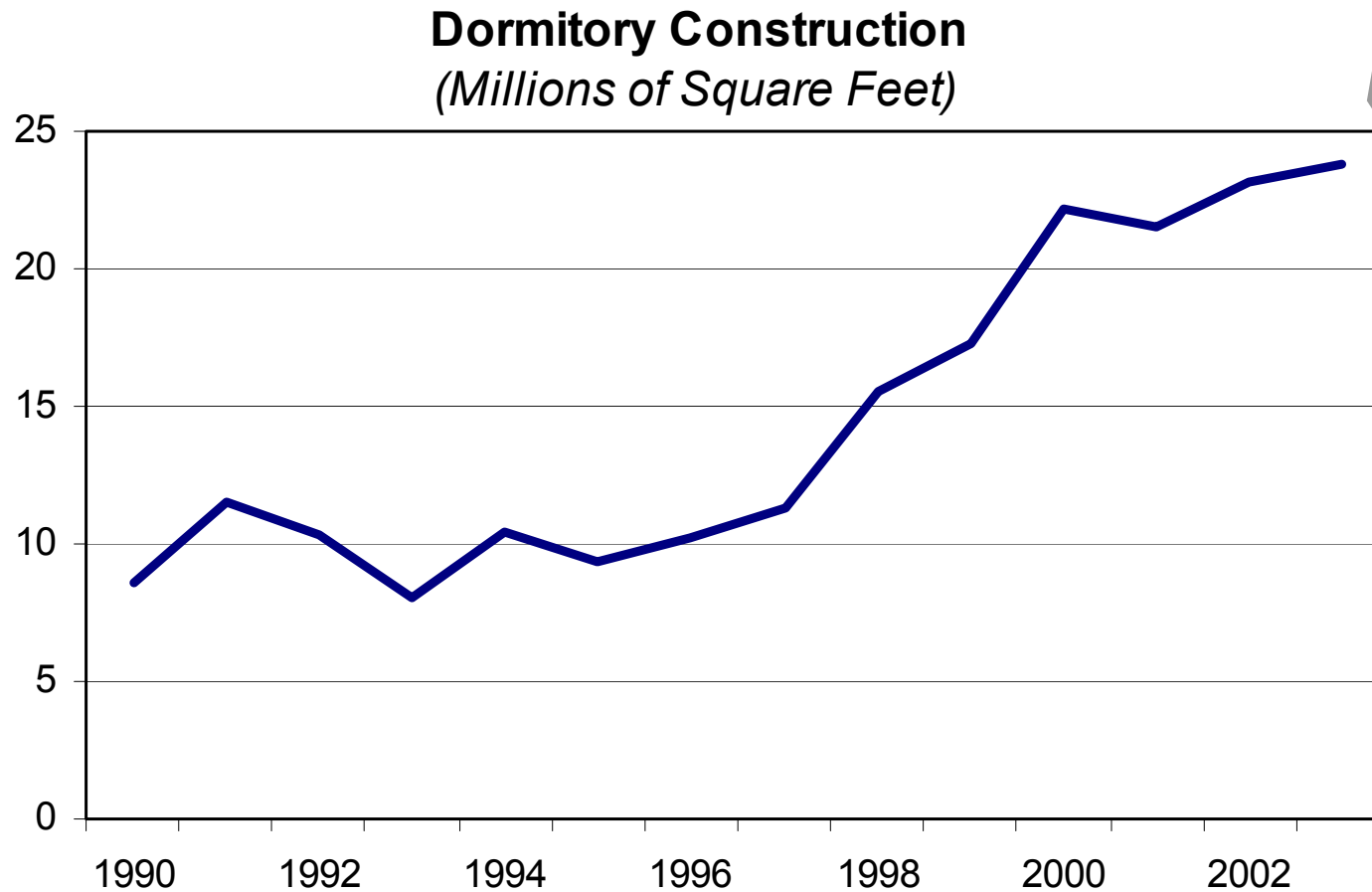
College Enrollment
(Millions)



Enrollment Trends Vary by State



Positive Outlook for Dormitories



**Dormitory
Construction**

2002: +5%

2003: +4%

Barracks Construction Is Small Share

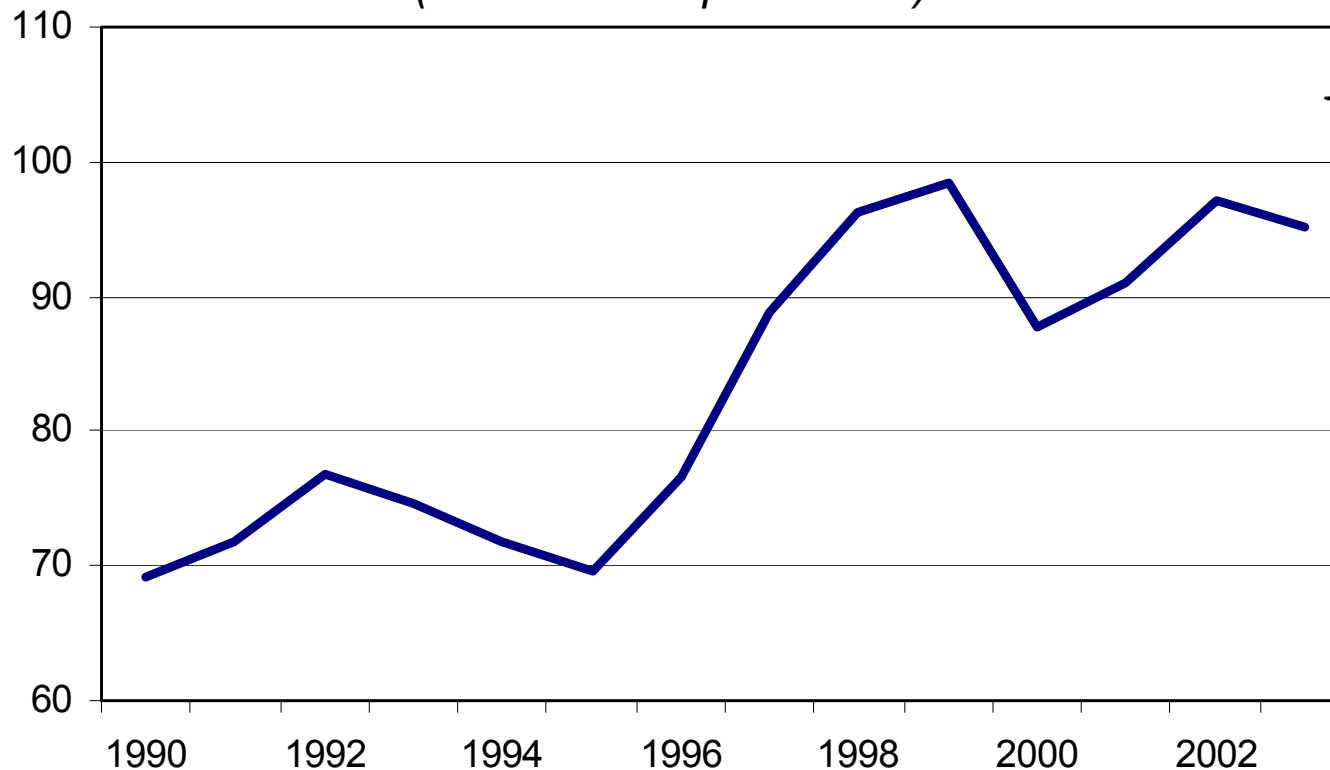
Military barracks construction equals about 20% of total dorm activity.

- **FY2003 military appropriations for barracks totaled \$1.2 billion, approximately 8% less than FY2002.**
- **Among the larger projects to begin construction in the last year:**

Title	Mil\$	Location
Great Lakes Recruit Barracks	\$75	Great Lakes, IL
Combat Aviation Brigade Barracks Complex	\$53	Fort Bragg, NC
Whole Barracks Renewal Phase 2A	\$43	Honolulu, HI
Basic Combat Training Facility Barracks	\$40	Fort Jackson, SC
Bachelor Enlisted Quarters-Naval Station	\$38	San Diego, CA
Enlisted Barracks Phase II	\$37	Colorado Springs, CO

Healthcare Looks Encouraging

Hospitals and Other Health Construction
(Millions of Square Feet)



Health Construction

2002: +7%

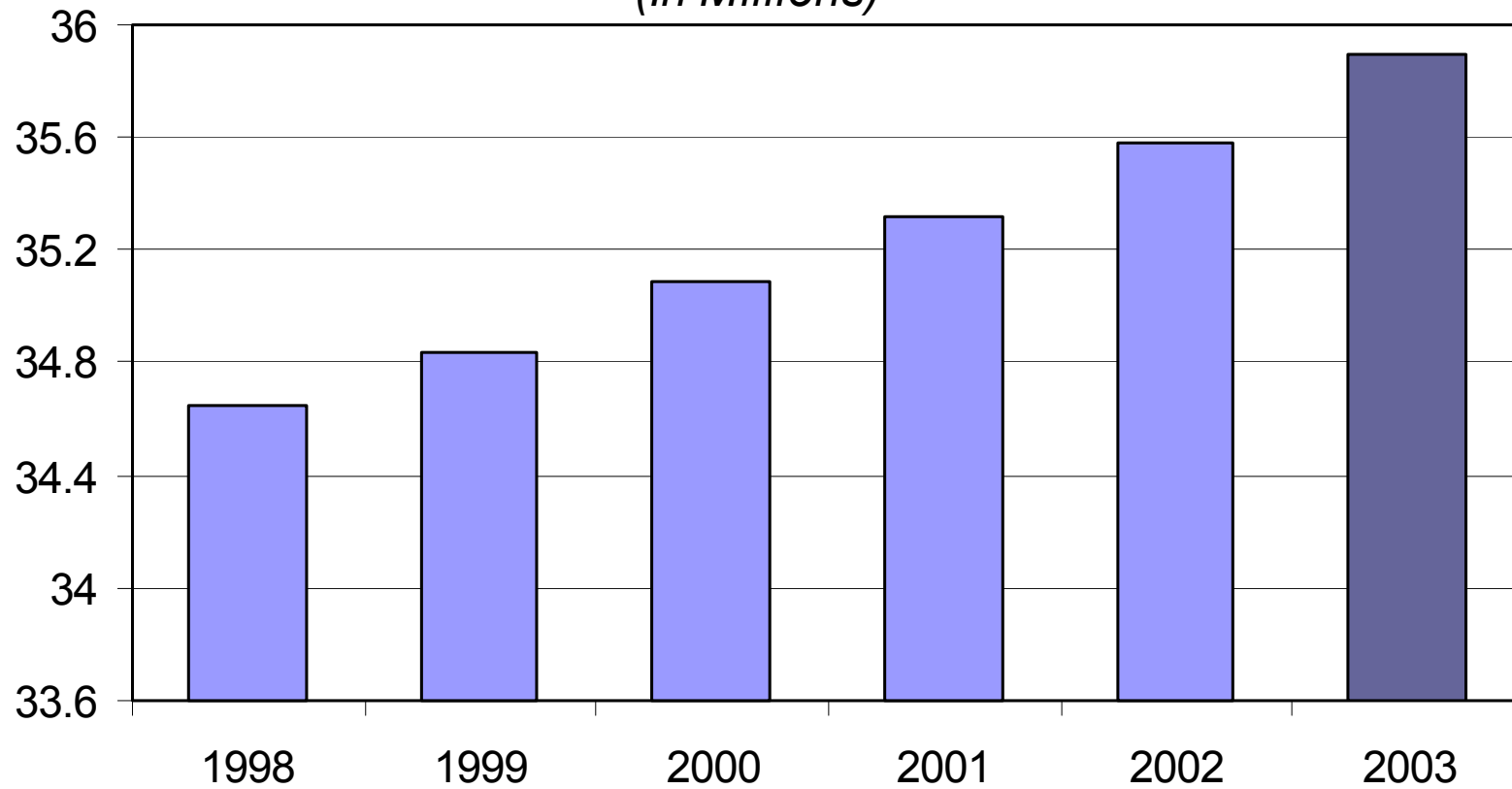
2003: -2%

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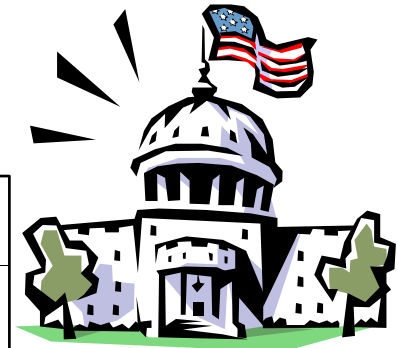
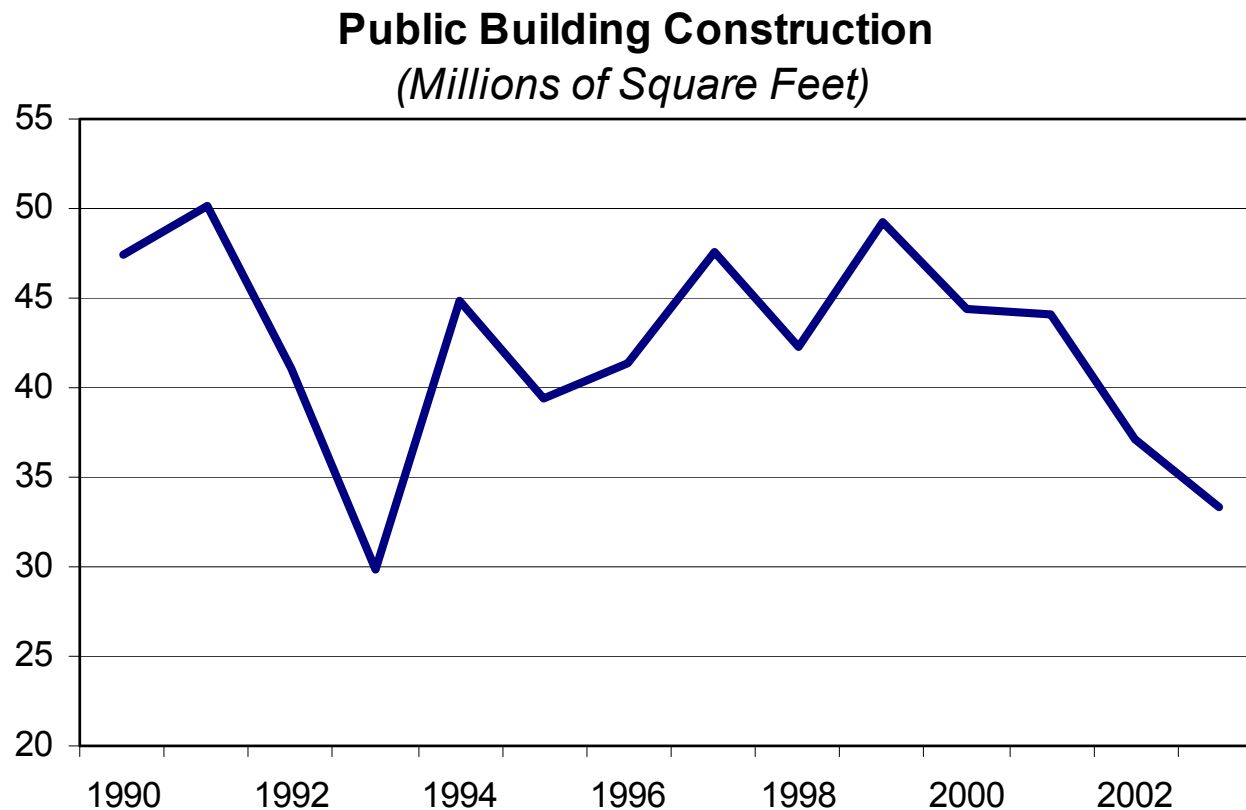
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Aging Population Provides A Boost

Population Aged 65+
(In Millions)



Public Buildings Continue to Weaken



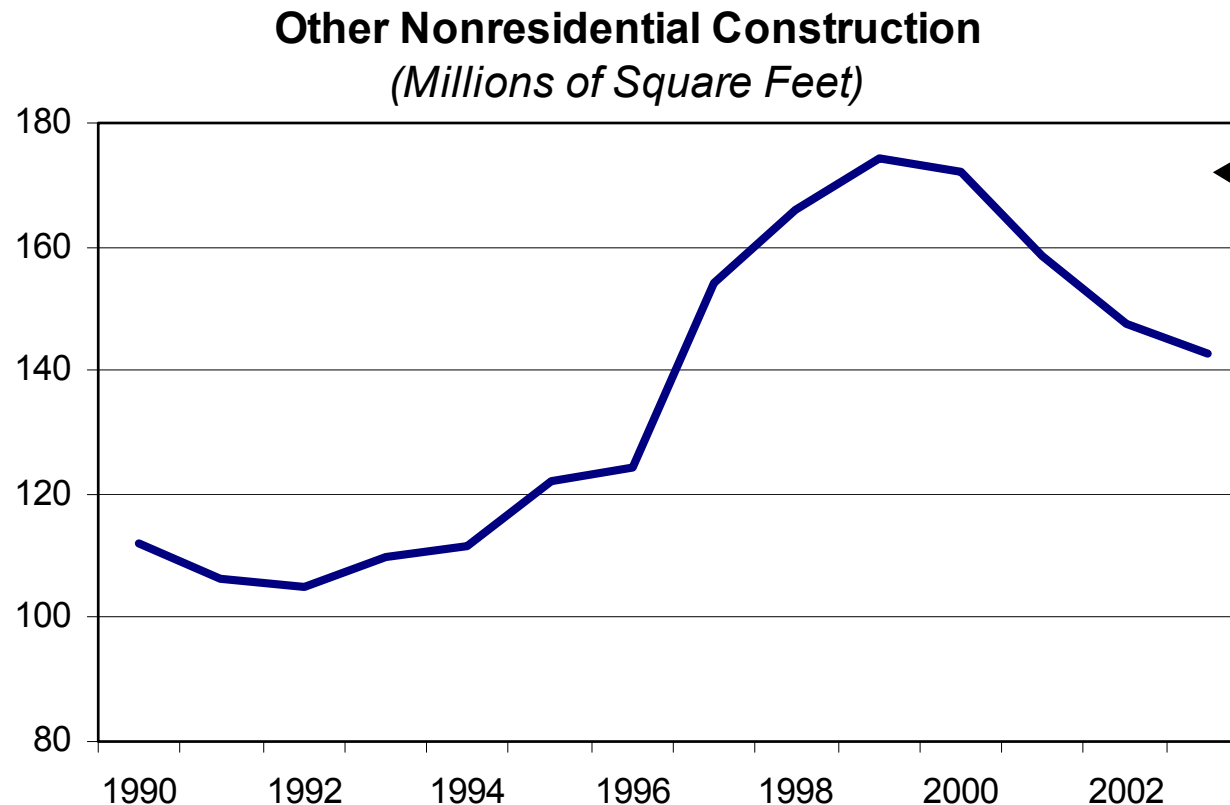
Public Construction

2002: -16%

2003: -10%

Public Buildings Include: Capitols and Courthouses, Prisons, Police and Fire Stations, Armories, and Post Offices.

Other Nonresidential Mostly Down



**Other Nonresidential
Construction**

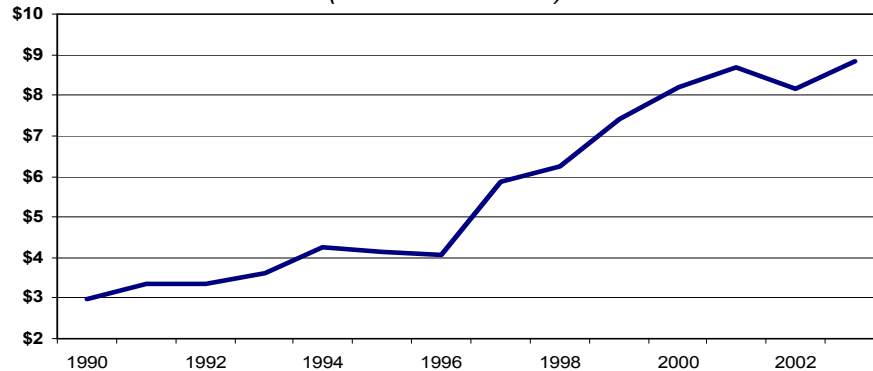
2002: -3%

2003: -7%

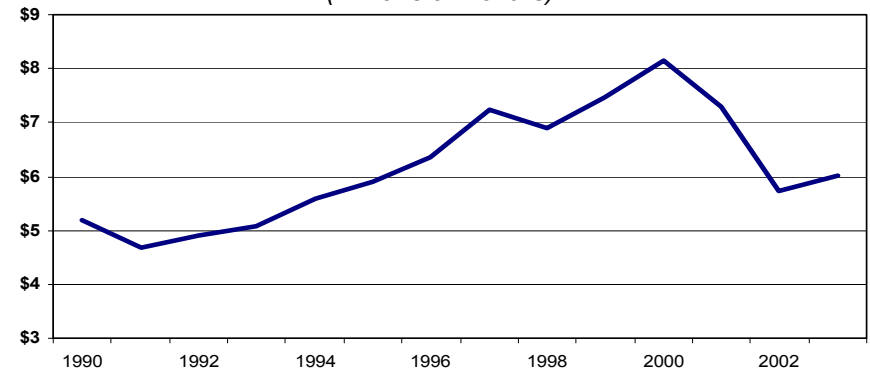
Includes: Amusement, Religious, and Miscellaneous Nonresidential Construction.

Renovations by Major Sector

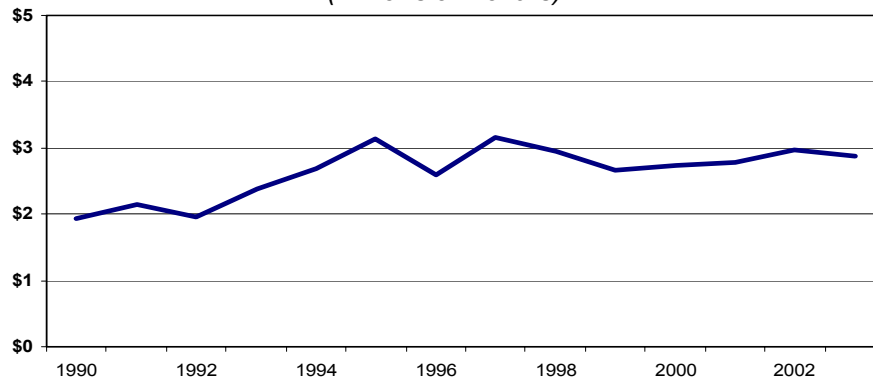
Education Renovations
(Billions of Dollars)



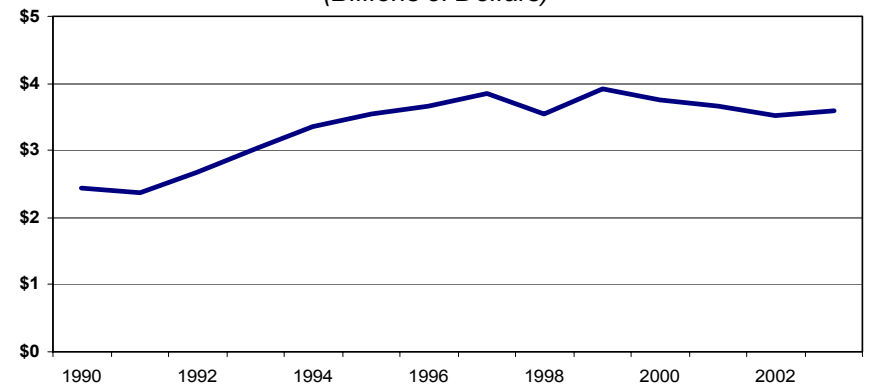
Office Renovations
(Billions of Dollars)



Apartment Renovations
(Billions of Dollars)



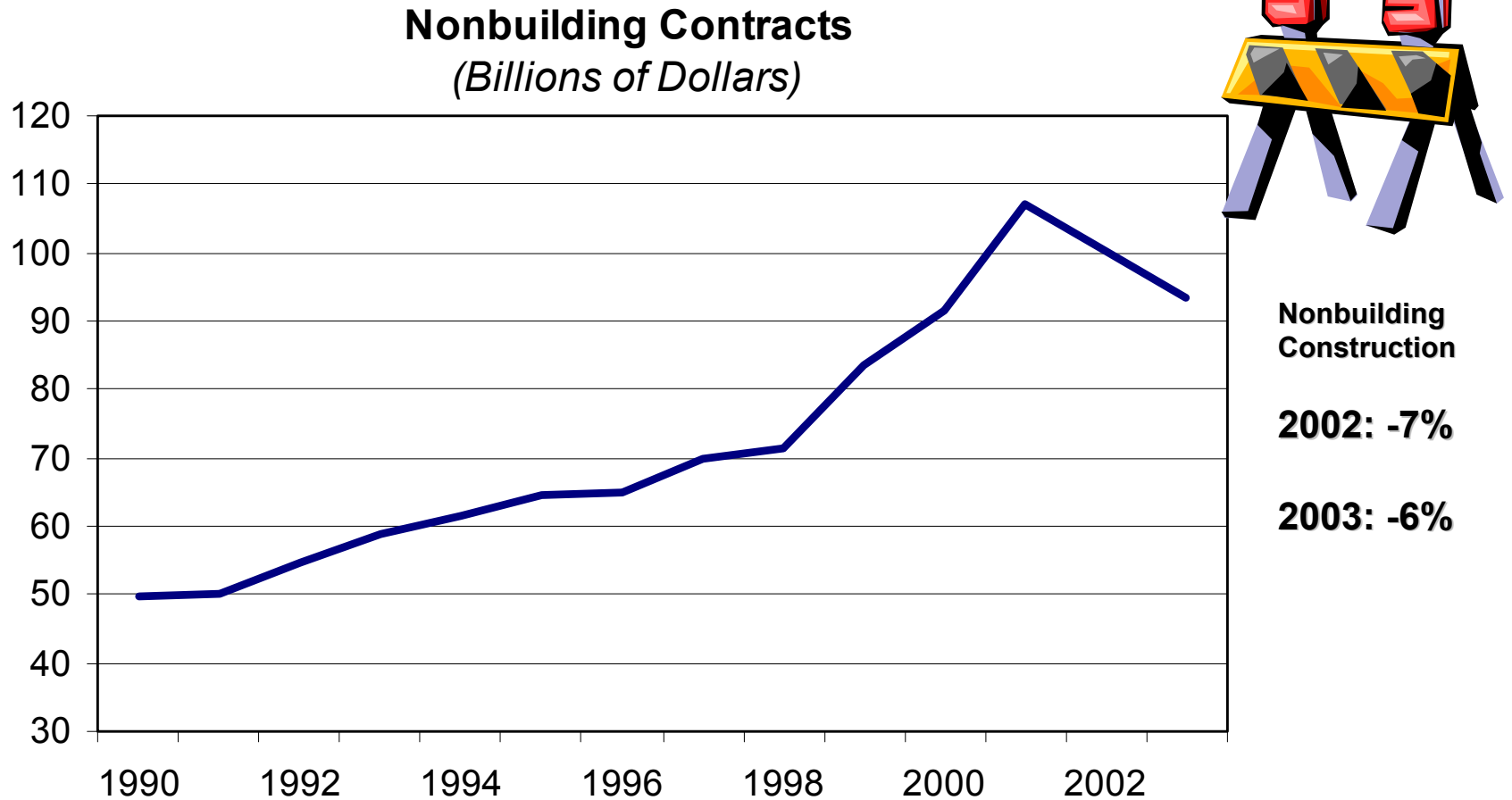
Store Renovations
(Billions of Dollars)



Public Works on the Wane



Nonbuilding Begins to Soften



Public Works and Federal Appropriations

The Funding Picture

Fiscal 2003 appropriations, passed in February 2003, were generally supportive.

- Federal-aid highway program down just 1% to \$31.6 billion.
- Airport Improvement Grants up 2% to \$3.4 billion.
- Corps of Engineers down 1% to \$4.6 billion.

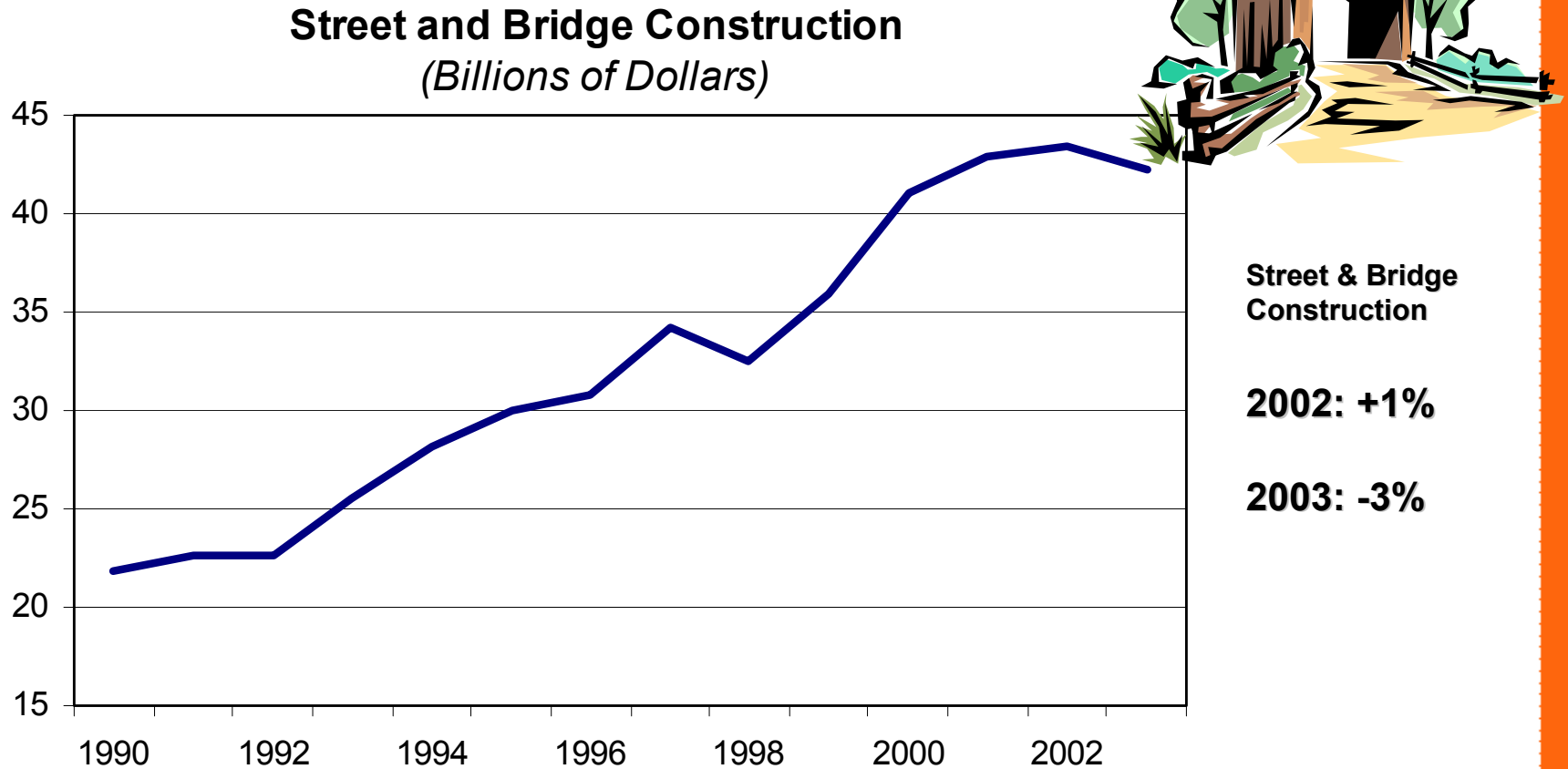
At state level, several large transportation bond measures were voted down in the November 2002 elections.

- Washington state voters defeated \$7.8 billion referendum.
- Virginia voters turned down two measures that could have raised \$8.8 billion for transportation work

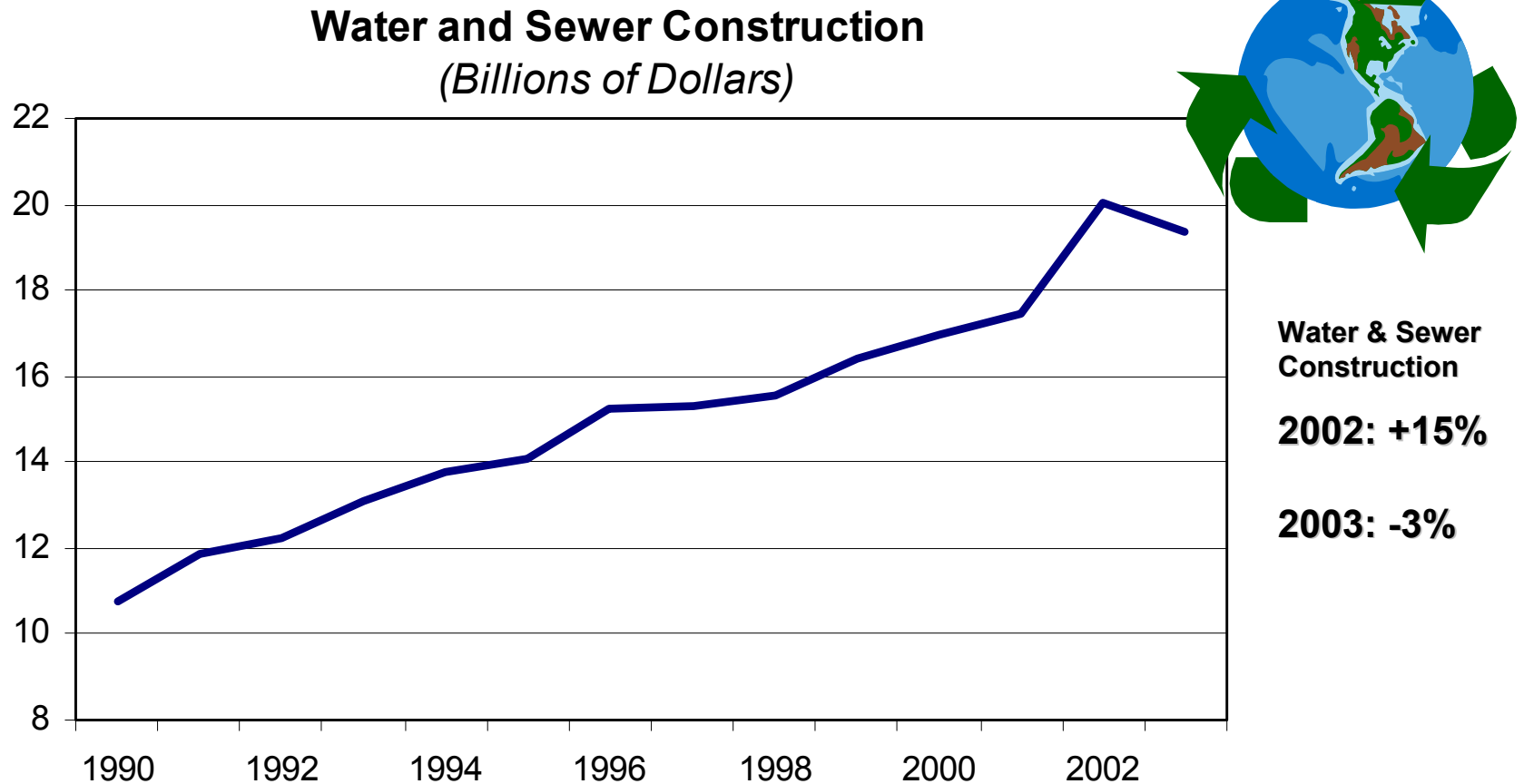
Bush Administration proposals for fiscal 2004

- Still supportive of transportation work.
- Environmental public works could take a hit.

TEA-21 Funding Begins to Fade

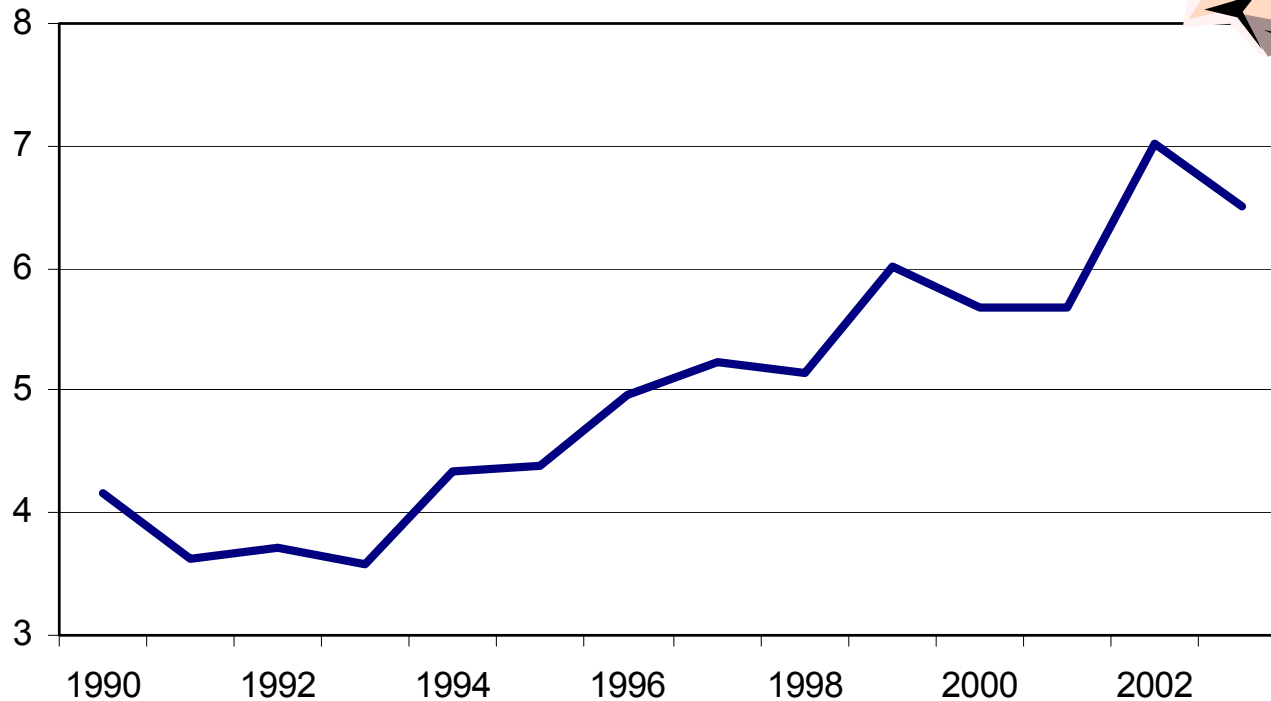


Water and Sewer Ease With Housing



Dams, Rivers and Harbors

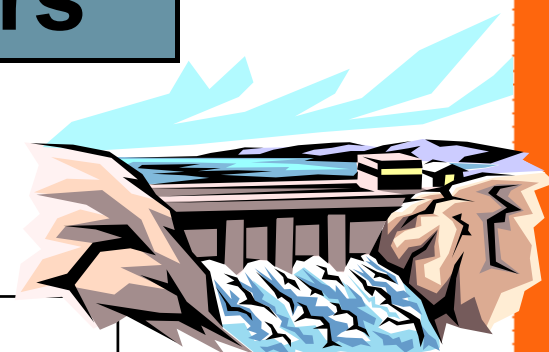
Dams, Rivers and Reservoirs
(Billions of Dollars)



**Dams, Rivers & Reservoir
Construction**

2002: +23%

2003: -7%

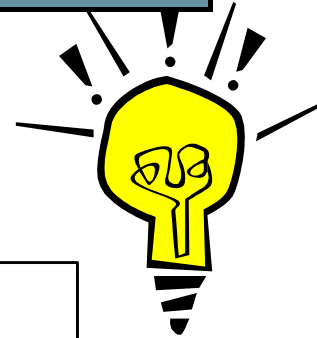


Largest Dams, Harbors and Reservoir Projects

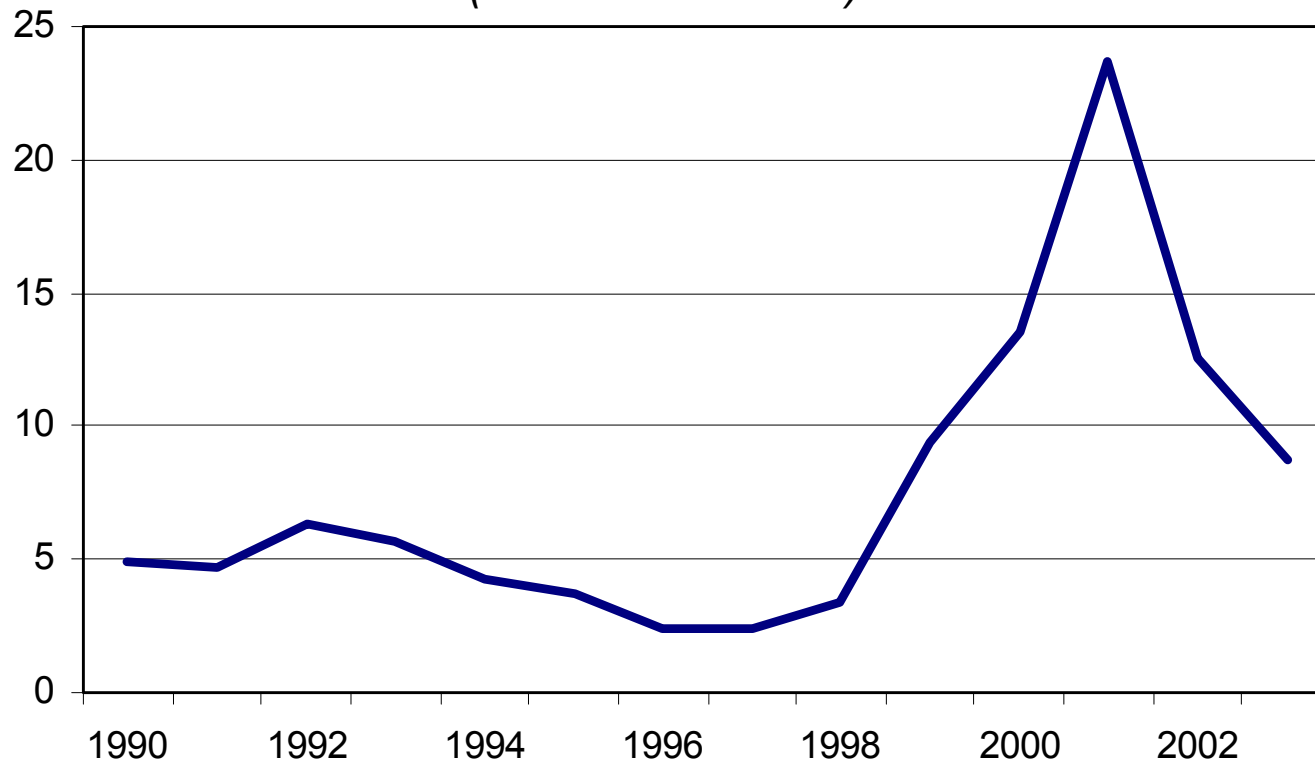
- Contract awards will shift down in 2003, though regions such as the Middle Atlantic and Pacific Southwest will continue to experience strength

Title	Mil\$	Location	Start
Lock Replacement-Access Bridge	\$166	Louisville, KY	Apr-03
Northeast Interceptor Sewer	\$162	Los Angeles, CA	Jun-02
Nancy Creek Tunnel	\$132	Atlanta, GA	Jul-02
East River CSO Retention Facilities	\$93	New York, NY	Mar-03
Wharf Construction	\$72	Norfolk, VA	Oct-02
Pier T Berths Dredging and Wharf Extension	\$49	Long Beach, CA	Mar-03
Pier 400 Container Wharf Phase II	\$40	San Pedro, CA	Feb-03
Wharf Extension/Crane Rails/Berth Strengthening	\$35	Staten Island, NY	Dec-02
Flood Control Project	\$35	Bound Brook, NJ	Feb-03
Lower Guadalupe River Flood Protection	\$33	Santa Clara, CA	Apr-03

Utilities Retreat from **HIGH** Level



Electric Power and Utility Construction
(Billions of Dollars)



**Electric Power
Construction**

2002: -47%

2003: -30%

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Thank You!

Any Questions?